Bank of Montreal

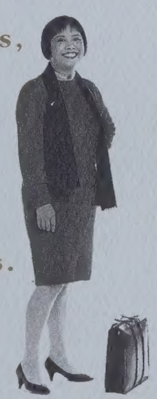
All of our resources-

our people, the very best technologies

and our financial strength must be focused on

surpassing the expectations of the people we serve-

the individual, small business entrepreneurs,



large corporate clients

and our shareholders.

This is our agenda for the decade.

This is our commitment.

Annual Report 1990

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Annual Highlights

For the Year Ended October 31 ($ in millions except per common share amounts)		1990		1989
Earnings Information (a)				
Net income (loss)	$	**522**	$	(39)
Net income (loss) per common share		**4.20**		(0.79)
Return on average common shareholders' equity (%)		**14.6**		(2.5)
Return on average assets (%)		**0.63**		(0.05)
Dividend Information				
Common share dividends	$	**240**	$	232
Preferred share dividends		**48**		47
Dividends declared per common share		**2.12**		2.12
Balance Sheet Information				
Total assets	$	**87,370**	$	78,921
Liquid assets (b)		**23,654**		18,500
Loans		**55,106**		54,303
Allowance for credit losses on loans, securities and other commitments		**2,339**		3,249
Deposits		**73,321**		65,923
Share capital and retained earnings		**3,926**		3,747
Common Share Information				
Number of common shares		**114,994,530**		110,760,085
Book value per common share	$	**30.01**	$	27.96
Other Information				
Number of bank branches		**1,242**		1,230
Number of automated banking machines and cash dispensers		**1,163**		937
Number of employees		**33,580**		33,666

(a) Restated to conform with 1990 presentation.

(b) Liquid assets include cash resources, investment and trading securities and secured day, call and short loans to investment dealers and brokers.

Our philosophy...

We are dedicated to excellence in everything we do, to meeting or exceeding the performance expectations of our principal constituencies – customers, employees, the community and shareholders.

- We will provide customers with value, quality, a distinctive level of service and high ethical standards in all our dealings with them.
- We will provide shareholders with an attractive and continuing return on their investment.
- We will offer employees the opportunity for a full and rewarding career, and will nurture a culture based on mutual loyalty, teamwork, respect and a strong work ethic.
- We will be involved in the communities we serve, and will always demonstrate high standards of social and corporate responsibility.

Our business...

Our business is to satisfy customers who seek assistance and advice in meeting their financial goals.

Our primary emphasis is traditional banking services, namely deposit, loan, payment and collection, custodial, information and risk management services. We will selectively enter new areas that broaden our range of services, logically extend our existing strengths and match or surpass competitor offerings.

Our markets...

North America is our principal marketplace. Offshore, we will select regions of strategic importance for trade and investment flows affecting our North American customers.

We will focus on three main customer groups:

- The first priority is individuals and small and medium-size businesses across Canada and in selected U.S. markets.
- The second priority is selected segments among large national and multinational businesses, governments and financial institutions in Canada and the U.S., including their international operations.
- The third priority is individuals, corporations and institutions with investment interests in North America, located in selected offshore markets.

Our values are what each of our stakeholders can expect of us.

Our customers come first...

- They will be served at all times by friendly, caring, responsive and well-trained employees. Our service will be characterized by fairness and respect, professionalism, integrity and ethical conduct.

Employee satisfaction leads to customer satisfaction...

The Bank is committed to attracting, developing and retaining the best people.

- Employees can expect us to demonstrate respect for the individual, to be a fair and equitable employer, and to provide the opportunity for a full and challenging career. We will offer competitive compensation and benefits programs, and will recognize and reward personal achievement as well as teamwork. And we will provide opportunities for continuous professional development through training and through mobility within the Bank.
- Pensioners are valued members of the Bank family. We will treat them not as individuals who used to work for the Bank, but rather as pensioned employees who continue as important members of our team.

The Bank, in turn, seeks from every employee:

- commitment to the Bank's principles and goals,
- a strong customer orientation, and
- a sensitivity to public concerns and actions which are at all times socially responsible.

We manage the Bank on behalf of our shareholders...

- Our first responsibility to them is to provide sound, responsible management and to keep them fully informed.
- We will be responsive to emerging threats and opportunities, and will invest–or divest–accordingly.
- We will maintain a prudent risk profile and a strong credit rating to protect shareholder investment.
- Shareholders can expect to see their investment steadily increase in value and achieve an annual return that is competitive with other banks.

We do business only with the permission of the communities we serve...

Communities expect us to consistently demonstrate social responsibility as an employer and as a corporate citizen. This we will achieve by serving the public interest, and the interests of consumers and local businesses in communities nationwide. We will encourage our employees to participate in community activities, and provide financial and other assistance to educational, cultural, health care and sports programs.

At Bank of Montreal, our goal is to provide a distinctive level of service to our customers, without whom we could not succeed. But our success also depends on how we meet the needs of our employees, the communities we serve, and our shareholders. Together, these groups constitute the Bank's "stakeholders" – those who have a stake in our business.

Customers rely upon us for the most professional financial counselling and care available, and employees for equitable, rewarding careers. Communities look to us for quality services unique to their needs, and for a commitment to the public interest – making the community a better place to work and live. Shareholders expect a consistent, competitive return on their investment.

Our stakeholders are interdependent. By serving each, we serve all.

This year's Annual Report introduces shareholders to the Bank's vision, corporate values and strategies – our recipe for competing in the Nineties. These are presented in summary form on pages 2 and 3. The reader will also find a candid discussion of our performance, complemented by an enhanced level of financial disclosure.

Our results this year are compared not only to those of previous years, but also to a set of standards and goals based on the aggregate performance of our principal bank competitors.

We begin with the Return On Equity (ROE), income for common shareholders as a percentage of their equity. With net income at $522 million, we achieved an ROE of 14.6% for 1990, which is just below the 15% average ROE of the six largest Canadian banks, and is close to our corporate standard of 15%. Return On Investment (ROI) for shareholders (measured by the percentage year-over-year change in share price plus the dividend yield on the opening share price) was negatively affected by the general decline in equity markets, but the decline was less than the average of the six largest Canadian banks and the Toronto Stock Exchange index of 300 representative companies. The negative 14.4% ROI was the second best performance amongst the six largest banks.

"The esteem of customers, shareholders and the community will ensure that our employees can say with pride, 'I work for Bank of Montreal.'"

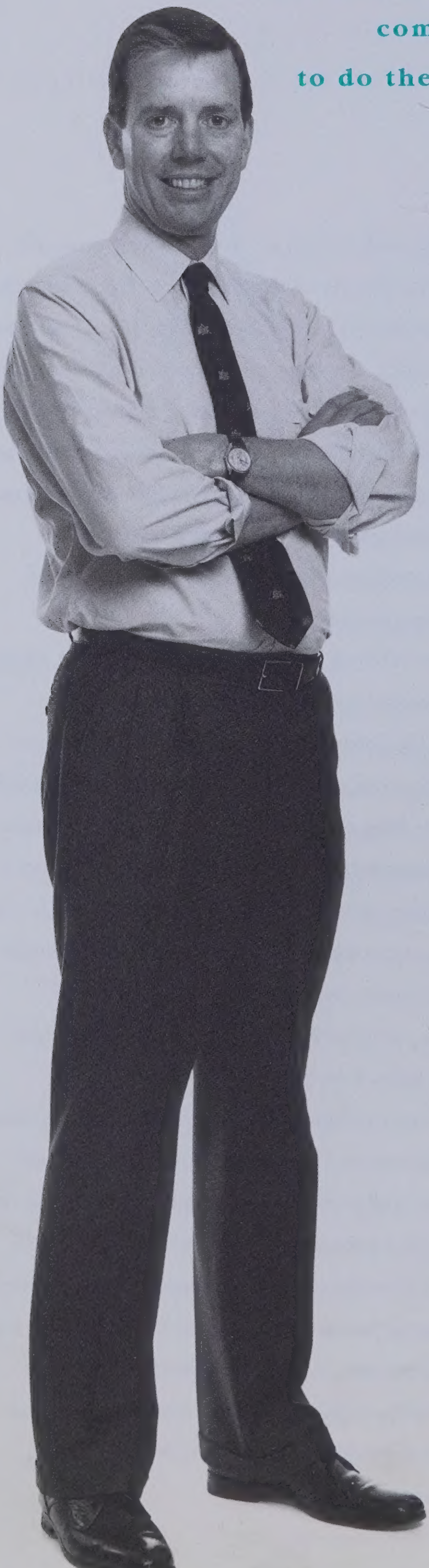
Productivity, another key performance standard, is often measured as a bank's non-interest expense-to-revenue ratio (the percentage of revenues consumed by operating expenses). At 67%, the Bank's ratio did not meet the average of our competition. However, the productivity gap between Bank of Montreal and its competitors was narrowed to 5.2% in 1990 compared to 7.5% in 1989, notwithstanding a year-over-year decline of $145 million in revenues from loans to developing countries. Rigorous cost control measures held non-interest expense growth to 5%. This was achieved despite a substantial increase in technological, training and other investments to improve service quality.

Our asset quality (measured by the level of loan loss provisions), capital base and liquidity all exceeded our corporate standards (which are defined on pages 16 and 17). Combined, these prudential measures indicate the healthy state of the Bank's credit risk profile and its funding stability.

In brief, the financial condition of the Bank reflects strong underpinnings, prudential policies and improving profitability. As the market for financial services grows more complex and the competition more intense, financial condition alone will not guarantee success. It will also depend on a clear understanding of customer needs and expectations, of competitive strengths and weaknesses, of market opportunities and risks. Selectivity and focus are essential in today's environment.

On April 19th, 1990, Bank of Montreal executives from across Canada and around the world met to affirm a new strategic plan. The plan was thoroughly communicated to all employees during spring and summer, and each area began developing strategies to implement it. In October and November, the Chairman visited branches and offices in all ten provinces and the NorthWest Territories, and in the United States. He discussed the plan with some 10,000 employees and with customers from all market segments. From these sessions, it was clear that our own people and our customers have strongly endorsed the strategic plan, and by so doing, have underwritten its success.

Matthew W. Barrett, Chairman and Chief Executive Officer



"Our strategy demands giving the most committed professionals in the industry the tools to do the job and then letting them get on with it."

Planning is vital to success. But a clear sense of purpose and identity are also essential.

While we are Canada's oldest bank, we are also a multi-faceted, contemporary corporate family which includes the Parent Bank, Harris Bankcorp, Inc., Nesbitt, Thomson Inc., Banco de Montreal S.A. (BAMI), Bank of Montreal Investment Management Limited (BOMIL) and Bank of Montreal Investor Services Limited (BOMIS). We offer clients a full range of banking and investment services. With regulatory change in both Canada and the United States, we anticipate even greater opportunity for growth and diversification, and for forging deeper customer relationships.

As the only bank with full service capability in Canada and the U.S., we have a distinct competitive advantage in North America. We intend to build sensibly but aggressively on that platform. We also manage strategic interests in Europe, the Far East and Latin America, serving the needs of our multinational clients abroad as well as offshore investors looking to North America.

Our history began 173 years ago. We take pride in it, and in the role we have played in pushing back a continental frontier and in developing the riches of our land. Although we have kept pace with the times, our values have remained constant and untarnished. Today's Bank of Montrealers draw upon a prized tradition, place it at the service of our stakeholders, and hold it in trust for the future.

Matthew W. Barrett Chairman and Chief Executive Officer	F. Anthony Comper President and Chief Operating Officer

F. Anthony Comper, President and Chief Operating Officer

"For my business I needed an international bank who cares about small business. I found it at Bank of Montreal."

Customers

There is no patent on superior banking service. It is attained only by consistent, superior performance in the thousands of small tasks which comprise day-to-day operations. It is, in effect, a team effort by those at the counter and those who work "behind-the-scenes".

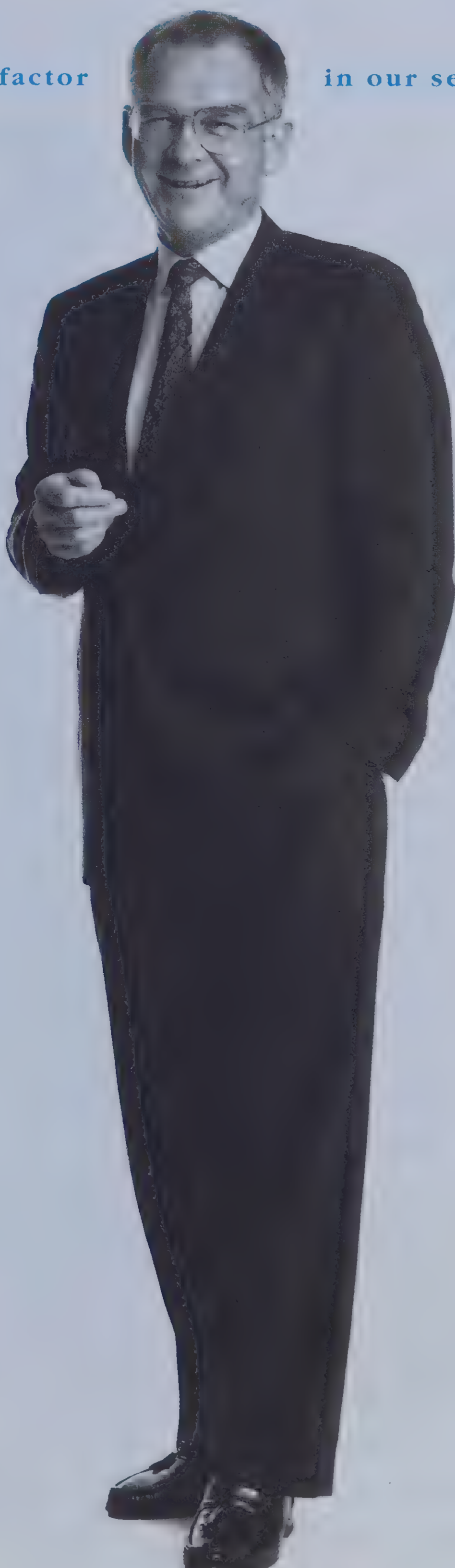
During the year, the Bank took some important steps involving people and systems to improve customer service.

To strengthen its presence at the community level, the Bank appointed thirty-six Vice-Presidents and eight Senior Vice-Presidents to 24 cities across Canada. This major decentralization complements other measures to place senior personnel closer to the customer and to provide branch staff with more decision-making authority. Virtually all banking decisions, from hours of service to loan approvals, are now made locally.

In January 1990, we brought together the Bank's personal and commercial banking services, MasterCard®*, private banking, discount brokerage and permissible investment management activities. Common management

Small Business Entrepreneur Grace Tam, Toronto & Tony Fok, Private Banking, Toronto, Ontario

"We established some tough criteria in selecting our bank for operating services. Bank of Montreal came through providing a superior balance of innovation, efficiency and customer service; indeed their customer service awareness was an important factor in our selection."



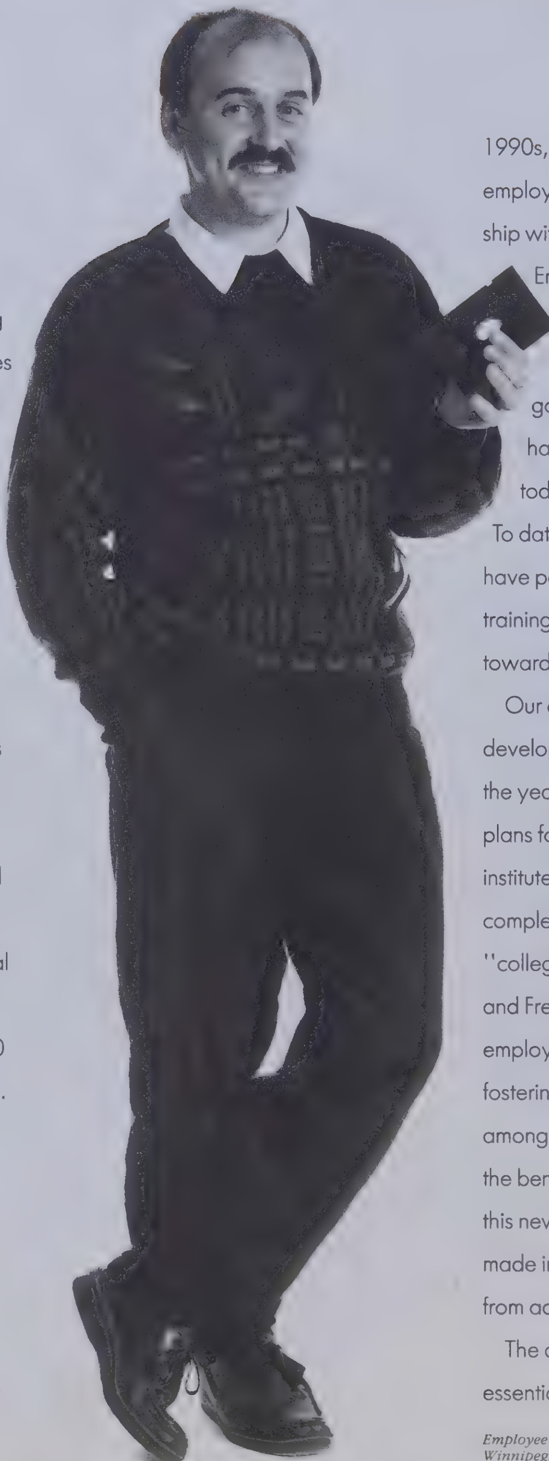
of these units better equips us to deliver a seamless array of services, and to respond quickly to new business opportunities arising from regulatory change.

In recognition of the special, and changing, requirements of our largest clients, a new umbrella organization was formed to include Corporate and Government Banking, Treasury Dealing and Money Market Services, Corporate Electronic Banking Services and Harris Government Securities in Chicago. Its objective is to build close relationships with selected clients by offering them a broad array of traditional lending, structured financing, corporate finance, cash management, treasury and advisory services.

During the past decade, the Bank strengthened its professional ranks through the creation of specialized disciplines to enhance marketing and credit skills, and to facilitate personnel training and career advancement. The organizational changes described above preserve the competitive advantages of highly qualified, trained and motivated personnel within each

Corporate Client Larry Bell, Chairman & Chief Executive Officer, B.C. Hydro, Vancouver, British Columbia

"The bank's new direction lends a dynamism to everything we do. I really enjoy coming to work."



discipline, while re-assembling our people into teams representing the entire organization to the customer.

Additional advanced technologies were introduced to improve operating services to customers. DirectLine® gives business clients direct access to detailed account information through their own personal computers. The Commercial Access Card gives business customers seven-day, round-the-clock control over their accounts through the Bank's 1,163 Instabanks. The Investment Product System, introduced this year in every branch, gives our staff and customers on-line access to investment accounts and product information, allowing them to respond to customer needs on-the-spot.

More important than organizational changes or systems improvements, however, are the efforts of our 33,580 employees to serve their customers . . .

Employees

In the 1970s and 1980s, gains in customer service emerged mainly from advances in banking technology: a wider range of services, more customer-activated devices, and a better matching of product and price. In the 1990s, the driving force will be the employee's ability to form a partnership with each customer.

Employee development is the linchpin. In helping our people attain their career goals, we thereby ensure they have the skills necessary for today's financial services industry. To date, some 12,000 employees have participated in customer service training – two-thirds of the way towards our Bank-wide objective.

Our commitment to employee development was underscored during the year by the announcement of plans for a training and educational institute for Bank personnel. When completed in 1993, this future banking "college" will offer courses in English and French to some 15,000 employees each year. Dedicated to fostering a customer service culture among current Bank of Montrealers, the benefits to all our stakeholders of this new facility will rival those gains made in the Seventies and Eighties from advances in technology.

The advancement of women is an essential element of our human

Employee Maurice Lavoie, Operations, Winnipeg, Manitoba

"I started banking at Bank of Montreal as a student and the bank now handles both our business and our personal accounts."

Customers Sally, Stephen and Mark McAllister, Fredericton, New Brunswick

resources strategy. In October, a task force established by the President was publicly announced. Its mandate is to identify and dismantle barriers preventing women from moving ahead in the Bank and reaching the most senior ranks. Our aim is to create an environment for women and men in which there will be true equality, with advancement based solely on merit. Simply stated, our goal is to have the best financial service professionals in the industry, and to place in their hands the responsibility and authority for customer service which meets or exceeds the customer's expectations.

The Community

The Bank is a part of the hundreds of communities it does business in across Canada. Each one has a stake in our success, just as we do in theirs. The trust and confidence of our hosts has been won through sound business practice and alert, conscientious service. We aim not only to retain that trust and confidence, but to expand it in each community we serve.

A strong community presence, how-

"I really like the idea that my bank encourages and supports its people in making things better for kids."

ever, means more than the provision of financial services. It means a strong presence through support of social and economic development, and an identification with the community's interests, whether these be chambers of commerce, school or hospital boards, or fund-raising drives. Always, the object is to contribute.

Bank of Montreal shares with its employees and customers a tradition of giving. The Bank has long been a leading corporate donor, supporting health care, social services and post-secondary education, as well as cultural and athletic endeavours. Employees at every level, in common with Bank directors, give generously of their time and money as active participants in the life of their community. In 1990, 70% of Bank personnel supported more than 1,100 charities. Through community fund-raising drives spear-headed by local branches, our customers also give generously.

Children are a particular focus of much of our community efforts. Through Project Sunshine, the Bank, its employees and customers joined together to support children's hospitals

Bank Customer Service Representative Pat Ali, Mississauga, & Carly Walker, Scarborough, Ontario

"I am a customer and a shareholder and I feel good about both. I'm impressed with Bank of Montreal."

across Canada with the largest single Canadian donation of $824,000 to the Children's Miracle Network Telethon and $514,000 to its Quebec counterpart, the Telethon of Stars. Employee fund-raising organizations – the Our People Fund in Ontario; the We Care program in Manitoba and the Bank of Montreal Employees Charity (BOMEC) in Quebec, Atlantic Canada, Saskatchewan, Alberta and British Columbia – directed a significant proportion of their donations in 1990 to hospitals, charities and services for children. Employees organized bake sales, lobster races and pumpkin carving contests; sold calendars and cookbooks; filled branches with teddy bears; and collected enough quarters to stretch more than ten miles.

The Bank is a primary corporate sponsor of Kids Help Phone. This bilingual, 24-hour counselling service receives about 800 calls a day from children suffering difficulties. During the year the Bank raised $150,000 for Kids Help Phone from a special mailing to MasterCard and deposit customers.

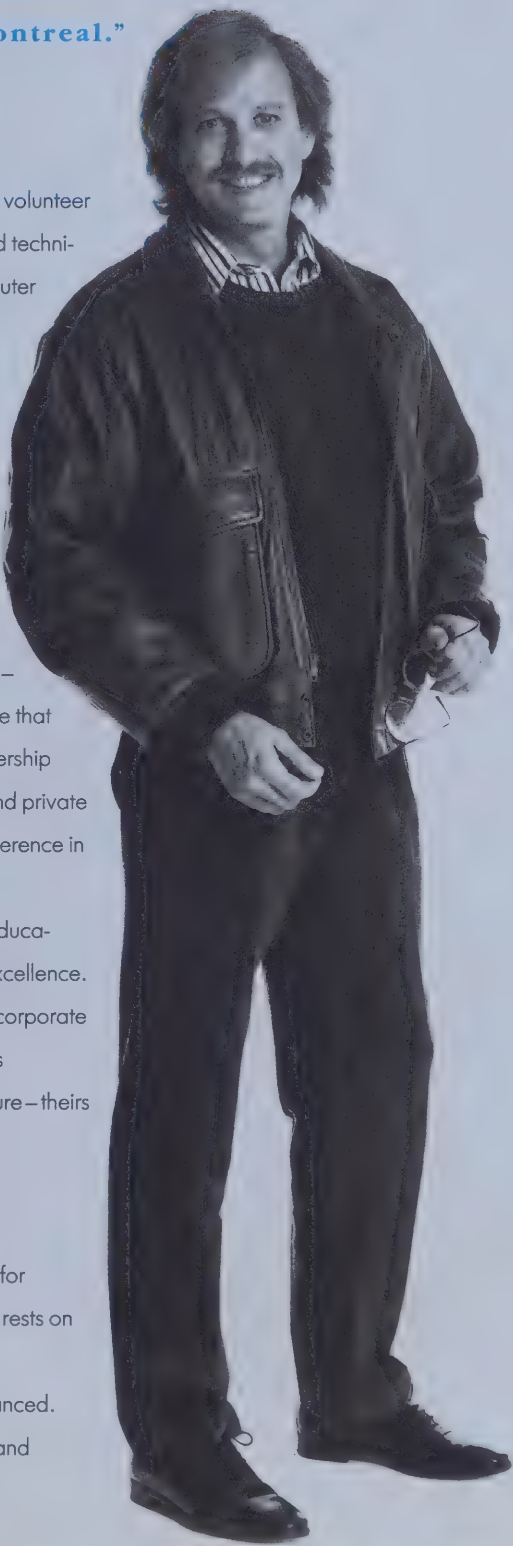
During the year, the Bank actively supported the Canadian Special Olympics through committee volunteer work, promotional efforts and technical advice in setting up computer systems. Our assistance has helped this organization to broaden the scope of its fund-raising from a provincial to a national level.

These commitments of time and money are not ancillary to our core business – they are part of it. We believe that Canadian business – in partnership with government agencies and private foundations – can make a difference in tackling difficult social problems and in promoting educational, cultural and athletic excellence. In taking our place as active corporate citizens in communities across Canada, we build for the future – theirs and ours.

Shareholders

The Bank's financial strategy for increasing shareholder value rests on two principles:

- First, our strategy will be balanced. Efforts to generate revenues and



Shareholder and customer Gerry Hardy, Montreal, Quebec

"In my business I always looked for the best professional advice. Now I'm getting the best and building my investment portfolio."

control costs will be aggressive while adhering at all times to clear and firm standards of prudential risk management.

- Second, our strategy will be selective. The Bank will enter only those markets or lines of business which are a logical extension of our existing strengths, in which we can match or surpass competitor offerings, and in which we can maintain our standards of profitability and prudent management.

The next section, entitled "Financial Goals and Measures" contains a graphic summary of the Bank's 1990 "scorecard". The Management Analysis of Operations has been substantially expanded relative to previous years' reports. Together with "Financial Goals and Measures", it will better enable shareholders to evaluate management's performance in improving the value of their investment.

Investor Kin F. Wong & Ed Filewych, Nesbitt Thomson Deacon Inc., Calgary, Alberta

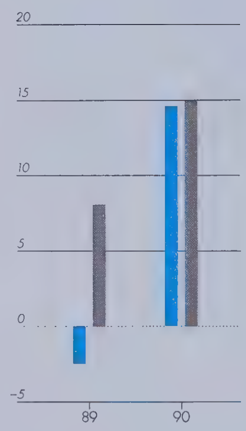
Profitability Measures

The Bank's overall financial goal is to achieve a superior return on investment for its common shareholder. This objective requires superior performance on a number of key financial measures which the Bank has adopted. The measures were selected to provide a balance between profitability and prudential concerns. These graphs assess Bank of Montreal's performance by comparison to the average of the six largest chartered banks in Canada. Return on investment is covered on page 18.

Return on Equity—Getting Better

Net Income for Common Shareholders As a % of Common Equity

Bank of Montreal
Six Bank Average



Profitability, as measured by return on common equity, increased from a negative 2.5% in 1989 to 14.6% in 1990. Bank of Montreal's return on equity in 1990 nearly equalled the average of the six banks and virtually eliminated the 1989 performance gap of 10.5%—a substantial improvement.

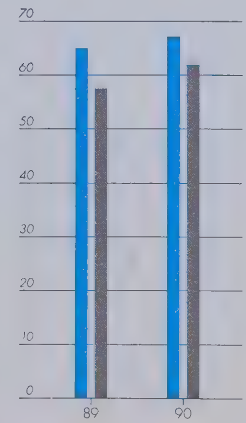
Earnings Growth—The Right Direction

The Bank earned $522 million in 1990, compared with a loss of $39 million in 1989. This increase of $561 million cannot meaningfully be expressed in earnings growth terms. The 1989 loss was a result of the unusually large provisions for possible losses on LDC claims which were taken in 1989. While no similar provisions have been taken in 1990, the level of revenues from these claims was $145 million lower than 1989. For the Bank of Montreal, elimination of the effect of these two factors would indicate year over year earnings growth of 10%. Similarly adjusted comparisons are not available for the other five banks.

Productivity—Closing the Gap

Expenses As a % of Revenues

Bank of Montreal
Six Bank Average



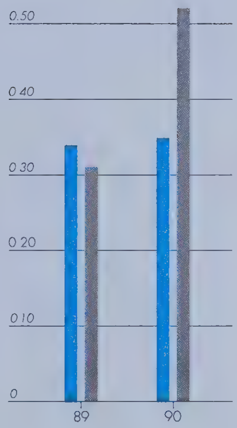
Productivity, as measured by the expense incurred to generate each dollar of revenue (net interest income and other operating income), improves as this ratio declines. Although the Bank's productivity, at 67%, continues to rank lowest, superior expense control has resulted in a 50% reduction in the gap with the average of the six banks since 1987. This is equivalent to having removed $185 million (in 1990 dollars) from our expense base. Forty-five percent of this saving was achieved in 1990.

Prudential Measures

The Bank's ultimate objective is to rank among the top tier (top two) of these six banks while its standard is to perform at a level at least equal to their average. In 1990, the Bank ranked third on return on equity and improved on all the profitability measures relative to the competition. Its performance on all the prudential measures was stronger than average.

Asset Quality Remains Strong

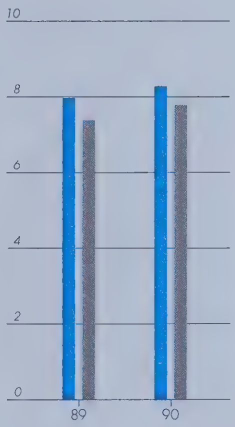
Provision for Credit Losses As a % of Loans (Non-LDC)



Asset Quality, as measured by the provision for losses relative to loans, improves as this ratio declines. On this basis, the Bank's asset quality for non-LDC loans essentially equalled 1989, exceeding standard and achieving top tier status among the six banks.

Strong Capital Base —A Solid Foundation

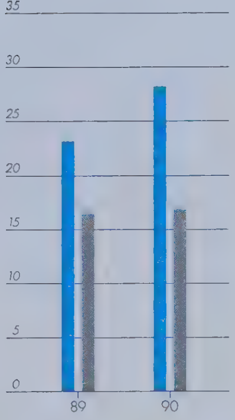
Capital As a % of Risk-Adjusted Assets



The Bank's Capital base was strengthened during 1990 and continues to exceed regulatory requirements, the Bank's own standard (which is more demanding) and the six bank average.

Substantial Liquidity Provides Flexibility

Cash and Securities As a % of Assets



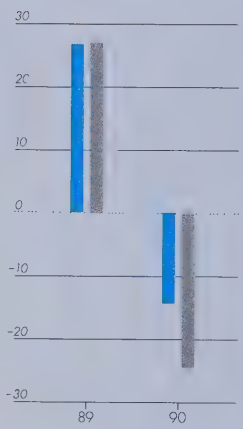
Liquidity is measured, for external comparison purposes, by the proportion of cash resources and securities to total assets. Internally, the Bank's definition excludes securities not considered to be liquid; however, this information is not available for the other banks. On the external basis, the Bank's liquidity increased during 1990 to 28.3%—the highest among the six banks. The lowest was 9%.

Annual Share Price Performance and Dividend Yield – Better Than Most

The closing price for the Bank of Montreal's common shares was $27 on October 31, 1990. This was $7 (20.6%) per share lower than a year earlier as weakness in domestic and international equity markets caused significant erosion in share prices world-wide. The Bank's share price has withstood these pressures better than the average of the six banks (down 29.5%) and better than Canadian equities generally. This reflects the Bank's improved financial performance and its excellent 6.2% dividend yield.

Return on Shareholders' Investment

Common Dividends and Unrealized Capital Gain/(Loss)
As a % of Share Cost at Beginning of Fiscal Year



Management Analysis of Operations

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The management analysis of operations provides shareholders and potential investors with management's analysis of the Bank's earnings and financial condition for the year ended October 31, 1990. The analysis is based primarily on the Bank's financial goals and measures. Summary financial statements and references to the detailed analysis are provided below.

Earnings

($ millions)

Earnings	
Net Interest Income	2,491
Other Operating Income	1,202
Foreign Currency Translation Loss	111
Total Revenue	3,582
Provision for Credit Losses	169
Non-Interest Expense	2,453
Provision for Income Taxes	435
Minority Interests	3
Net Income	522

Financial Condition at Year-End

Assets		Liabilities and Capital	
Liquid Assets	23,654	Deposits	73,321
Performing Loans	53,727	Other Liabilities	8,578
Non-Performing Loans	923	Tier 1 Capital	3,631
Other Assets	9,066	Tier 2 Capital	1,840
	87,370		87,370

- **Return on common shareholders' equity improved to 14.6%** in 1990 which is just below the corporate standard of 15%. This compares to an average of 5.2% over the past five years. **Earnings per share for 1990 were $4.20** compared with a net loss per share of $0.79 in 1989.

- **Revenues increased 2%.** Interest revenue on the LDC portfolio declined approximately $145 million as a result of restructuring of loans to Mexico and lower cash receipts from Brazil. In addition, overall interest margins were reduced as a result of the rising interest rate environment in Canada and the United States during much of 1990. Despite these negative factors, net interest income was up slightly from 1989, largely as a result of strong growth in personal and mid-market commercial loans in Canada and a gain of $17 million on the sale of the Bank's investment in Banque Transatlantique, a privately-owned French bank.

  Other operating income increased by 7% with growth in the volume of operating services and MasterCard merchant revenues and a significant improvement in foreign exchange revenues and trust income.

- **Effective management of non-interest expense growth** continued in 1990. Excluding the effect of the approximately $20 million one-time cost of a staff reduction program at Harris (the Bank's U.S. subsidiary), non-interest expense grew 4%. While this rate of growth is quite satisfactory considering inflationary and volume pressures, the Bank's productivity ratio at 67% for 1990 is not meeting the corporate standard. Careful control of expenses will continue to be a priority.

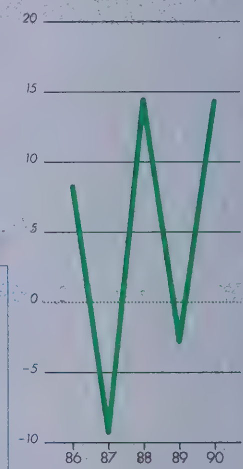
- **Asset quality remained high in 1990.** The Bank's loan portfolio is well diversified with limited exposure to troubled sectors. The provision for credit losses as a percentage of average loans was 0.31% compared to 2.22% in 1989 (0.34% excluding the $1 billion LDC provision that year). Non-performing loans, net of allowance for credit losses (reservations), increased during the year from $785 million to $923 million reflecting the economic decline in North America.

- **Capital continues to be an underlying strength** of the Bank, providing a solid foundation for future growth. The Bank's total capital ratio was 8.3% of risk-adjusted assets at October 31, 1990, exceeding both the regulatory requirement of 7.25% and the 8% required by the end of 1992.

Return on Equity—Getting Better

Return on equity is a measure of profitability from a shareholder's perspective and allows comparison of performance to other organizations. In order to maintain a satisfactory return on equity over a period of time, the Bank must perform well on all of its other financial goals and measures. The Bank's short-term objective is to achieve an average return on equity at least equal to the greater of 15% and the average return on equity of the six largest Canadian banks. The Bank's longer-term objective is to rank first or second among this group.

Chart 1
Return on Equity (%)



The Bank nearly met its 15% return on equity objective and together with 1988 had the best return on equity since 1981.

Table 1
Financial Performance

	1986	1987	1988	1989	**1990**
Return on Equity (%)	8.5	(9.3)	14.7	(2.5)	**14.6**
Basic Earnings per Share $	3.16	(3.19)	4.38	(0.79)	**4.20**
Net Income (Loss) ($ millions)	310	(242)	500	(39)	**522**

Earnings Growth—The Right Direction

Net income for 1990 was $522 million. This compares with a loss of $39 million in 1989 which resulted from a $1 billion pre-tax provision for possible losses on the LDC portfolio. In 1990, no further LDC provisions were required. Earnings per share were $4.20, compared with a loss of $0.79 in 1989.

Earnings By Major Entity

The 1990 results of the Bank and each of its major subsidiaries, Harris Bankcorp, Inc. (Harris), Nesbitt, Thomson Inc. (Nesbitt), and Banco de Montreal S.A. (BAMI), are shown in Table 2 in Canadian dollar equivalent:

Table 2
1990
Earnings By Major Entity

($ millions)	Bank of Montreal (Parent)	Harris	Nesbitt	BAMI	Total
Net Interest Income*	1,800	466	30	266	2,562
Other Operating Income	739	320	126	17	1,202
Foreign Currency Translation Loss	–	–	–	(111)	(111)
Total Revenue*	2,539	786	156	172	3,653
Provision for Credit Losses	96	70	–	3	169
Non-Interest Expense	1,714	546	149	44	2,453
	729	170	7	125	1,031
Income Taxes* & Minority Interests	328	74	2	105	509
Net Income	**401**	**96**	**5**	**20**	**522**
Average Assets ($ billions)	**66.0**	**14.0**	**1.8**	**0.7**	**82.5**
1989 Net income/(Loss)	(115)	52	13	11	(39)

*Adjusted to a taxable equivalent basis (TEB) as discussed on page 25.

Bank of Montreal (Parent)

The Parent Bank earned $401 million in 1990, which was 77% of the Bank's after-tax earnings, compared to a loss of $115 million in 1989.

In 1989, provisions for possible losses on LDC debt of $941 million were made by the Parent Bank, whereas no amounts were required in 1990. Interest revenue on the Parent Bank's LDC portfolio was approximately $135 million less than in 1989. The reduction in revenues was mainly due to the restructuring of loans to Mexico and lower receipts from Brazil. Excluding these two factors from both years' results, the Parent Bank's after-tax earnings increased by 11% over 1989.

Earnings benefited from strong growth in personal and mid-market commercial loans in Canada of 12%, an increase in fee income of 6% and containment of expense growth to 5%. Partially offsetting these benefits was the narrowing of interest spreads associated with the rising interest rate environment. See page 26 for details.

Harris

Harris, a wholly-owned subsidiary, is a major U.S. mid-west bank with assets of $14 billion (Canadian dollar equivalent). Harris and its subsidiaries provide personal and corporate banking and trust services. Harris administers trust assets of approximately U.S. $87 billion and ranked 22nd in the United States in discretionary trust assets at December 31, 1989. Harris has been steadily growing its banking business in communities in the Chicago area. Community banking accounted for approximately 21% of Harris' assets and 33% of Harris' earnings in 1990.

Harris contributed $96 million to the Bank's results in 1990 compared to $52 million in 1989. Before a provision for credit losses on LDC debt of $59 million, net income in 1989 was $96 million. No LDC provisions were required in 1990.

In an effort to improve on-going profitability, Harris undertook a major staff reduction program in June 1990. The program reduced the workforce by approximately 8% and resulted in one-time severance, benefits and other expenses of about $20 million.

Excluding the impact of LDC provisions and the staff reduction program from 1989 and 1990 results, Harris' earnings increased by approximately 16%. The most significant factor in the improvement was strong growth in other operating income, in particular trust and investment management fees, service charges on deposits and charge card fees.

Nesbitt

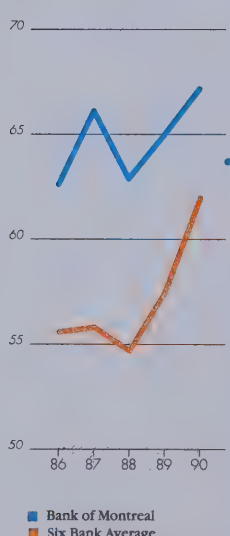
Nesbitt, a 75% owned subsidiary, is a major fully integrated Canadian investment dealer. Nesbitt engages in the trading, underwriting and distribution of securities. Nesbitt contributed $5 million to the Bank's results, compared to $13 million in 1989. Nesbitt has remained profitable despite the continuing weak market conditions.

BAMI

BAMI, the Bank's Brazilian subsidiary, is a commercial and investment bank providing banking and investment management services. BAMI earned $20 million for the year compared to $11 million in 1989 after adjusting for the related foreign currency translation losses in both years. The improvement in earnings was mainly due to the company's ability to earn higher spreads in this highly volatile economic environment.

Productivity–Closing The Gap

Chart 2
Productivity
Expenses
As a % of Revenues



Improving the Bank's productivity relative to other banks is a major goal. The gap was narrowed from 7.5% in 1989 to 5.2% in 1990.

The Bank measures its productivity by the ratio of non-interest expense to revenues (taxable equivalent net interest income and other operating income). In 1990, this ratio was 67.2% compared to an average of 62.0% for the six largest Canadian banks. The Bank's goal is to achieve a productivity ratio at least equal to the average of the six largest Canadian banks by 1993. Thereafter, our goal is to be one of the best two amongst these banks. As indicated in Chart 2, the gap has been closing steadily since 1987. In 1990, the Bank succeeded in narrowing the gap from 7.5% in 1989 to 5.2%. Despite pressures on revenues in 1990, the improvement was achieved by limiting expense growth to 5%.

Productivity improvements have been achieved primarily by consolidating and automating the "back-office" areas of the Bank which are responsible for processing the significant volumes of transactions handled daily. In addition, layers of management have been reduced and discretionary expenditures have been kept under strict control. These improvements have freed up resources to be redeployed to our customer service and revenue-generating activities.

Productivity–Revenue Improvement

The Bank's revenue can generally be described as either interest or fee-based. In 1990, total revenue (on a taxable equivalent basis) was $3,653 million compared to $3,586 million in 1989, an increase of 2%. As described under "Net Interest Income and Spread", revenues came under pressure in 1990 due to a number of factors.

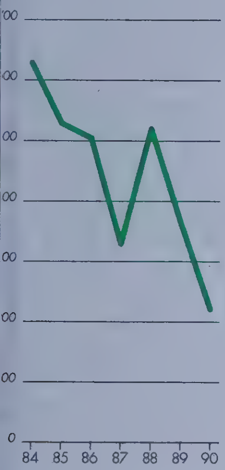
Table 3
Revenues

($ millions)	1986	1987	1988	1989	**1990**
Net Interest Income as reported	2,081	2,080	2,485	2,484	**2,491**
Taxable Equivalent Adjustment	193	138	86	73	**71**
	2,274	2,218	2,571	2,557	**2,562**
Other Operating Income	819	918	1,135	1,119	**1,202**
Foreign Currency Translation Loss*	(1)	(27)	(53)	(90)	**(111)**
Total Revenue	3,092	3,109	3,653	3,586	**3,653**

*The foreign currency translation loss is in respect of the Bank's investment in BAMI and is described in note 2 to the financial statements. The loss offsets the effect of inflation in Brazil on BAMI's net interest income which increased by $65 million to $266 million in 1990.

Revenues increased nearly 2% despite a decline in LDC interest income of $145 million compared with 1989.

Chart 3
LDC Revenues
($ millions)



Net Interest Income & Spread

Net interest income is the difference between interest earned on loans and securities and interest paid on deposits and debentures. For the purpose of analysis, it is adjusted to a taxable equivalent basis. The taxable equivalent adjustment increases interest income to the amount that would result if income from tax-exempt securities were taxable. This results in a better reflection of the economic yield on these instruments. Net interest spread is the net interest income (adjusted to a taxable equivalent basis) divided by average total assets.

Net interest income was $2,562 million in 1990, up marginally from $2,557 million in 1989. This small increase masks several significant positive and negative factors.

Net interest income was negatively affected by a reduction in interest revenue on LDC debt which declined approximately $145 million in 1990. This decrease was mainly due to the restructuring of loans to Mexico and lower interest receipts from Brazil. As illustrated in Chart 3, the decline in LDC revenues in 1990 is a continuation of the downward trend in recent years, except in 1988 when Brazil made year-end payments relating to prior periods. At October 31, 1990, unpaid and unaccrued interest on the Bank's LDC debt amounted to $287 million, primarily relating to Brazil and Argentina. Details are provided on page 34.

On the positive side, net interest income was augmented by a $17 million gain on the sale of the Bank's 20% investment in Banque Transatlantique, a privately-owned French bank. Under its new strategic direction, the Bank is no longer seeking indigenous lending outside North America and so this investment was not required.

In addition, BAMI's net interest income increased significantly over 1989 by $65 million, to a level of $266 million in 1990. This resulted from a substantial widening of interest spreads because of the highly volatile economic environment in Brazil. This increase in net interest income was partially offset by a higher foreign exchange loss on translation of the Bank's investment in BAMI, which increased from $90 million in 1989 to $111 million in 1990.

The remaining increase in the Bank's net interest income was attributable to ongoing operations. This reflected a significant increase in business volumes in the Canadian personal and commercial mid-market sectors, offset in part by the negative impacts of the higher interest rate environment which prevailed in 1990.

Volume growth in Canada was particularly noteworthy in mortgages (18%), other personal loans (7%) and commercial mid-market loans (9%). Personal deposits, which provide a stable source of funding, grew 9%. Generally, personal and mid-market commercial business is more profitable than large corporate business due to higher yields and lower funding costs. Accordingly, increased volumes of personal and commercial mid-market business contribute to a more profitable balance sheet mix. The asset and deposit mix of the balance sheet and the applicable rates of interest income and expense are summarized on page 46.

Net interest income is also affected by the movement in interest rates. The sensitivity of the Bank's earnings to changes in interest rates

depends upon the amounts of assets and liabilities repricing in similar time periods. Where a difference exists in a particular period, this is termed an interest rate sensitivity gap. When the gap is negative, repricing liabilities exceed repricing assets in that period and net interest spread will be reduced if interest rates increase. That is, the interest cost of deposits will increase more than the interest yield on assets. Conversely, where a gap is caused by repricing assets exceeding repricing liabilities, spreads will narrow when rates decrease.

Table 4 shows the Bank's interest rate gap positions at the end of October 1990, separating Canadian and foreign currencies. The Bank has more liabilities than assets subject to repricing within a year.

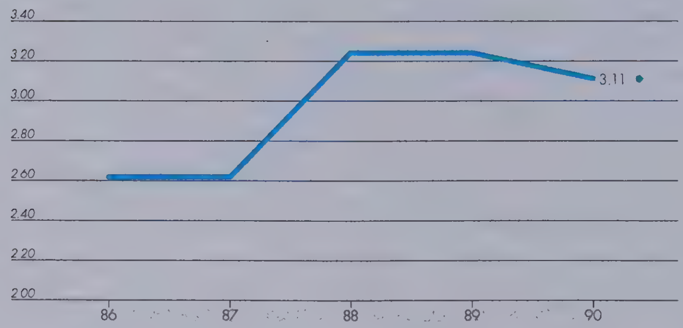
Table 4
Interest Rate Sensitivity Position
As at October 31, 1990

($ billions)

	0 to 3 Months	3 to 6 Months	6 to 12 Months	Total Within 1 Year	Over 1 Year	Non-Interest Sensitive	Total
Canadian Dollars							
Assets	23.6	4.5	5.4	33.5	10.5	8.8	52.8
Liabilities	29.4	2.4	3.8	35.6	5.1	12.1	52.8
Interest Rate Sensitivity Gap	(5.8)	2.1	1.6	(2.1)	5.4	(3.3)	0.0
Foreign Currencies							
Assets	24.1	3.9	1.9	29.9	2.0	2.7	34.6
Liabilities	26.3	1.9	0.6	28.8	1.0	4.8	34.6
Interest Rate Sensitivity Gap	(2.2)	2.0	1.3	1.1	1.0	(2.1)	0.0

The data shown reflects adjustments made for projected prepayments on loans and mortgages, and early redemptions on term deposits, where applicable. The positions also reflect the impact of off-balance sheet transactions, such as interest rate swaps, futures, and forward rate agreements, undertaken as part of the Bank's management of interest rate risk.

Chart 4
Net Interest Spread (%)



Rising interest rates during 1990 increased the cost of deposits faster than the yield on assets which reduced net interest spreads.

For the Bank's Canadian dollar balance sheet, spreads narrow over the short-term when rates increase. This was evident in the first half of fiscal 1990 when the Bank of Canada rate rose from 12.42% at the beginning of the year to a peak of 14.05% in May, 1990. Spreads improved in the latter part of the year as rates started to decline. The Bank of Montreal led the Canadian banks in reducing the Prime Rate three times within a five week period in August and September. Further interest rate reductions in 1991 will augment this improvement in spread, assuming no change to the pricing profile of assets and liabilities.

Other Operating Income

Other operating income is derived from fee-based services and includes fees for operating services, charge card fees, loan administration fees, income from foreign exchange, trust income, and securities and safekeeping fees. Other operating income has become an increasingly important component of earnings and has increased from 26% of total revenue in 1986 to 33% in 1990. This trend is expected to continue in future years.

The major components of other operating income over the past 5 years are shown in Table 5. In 1990, other operating income totalled $1,202 million, an increase of $83 million or 7% from 1989.

Table 5
Other Operating Income

($ millions)	1986	1987	1988	1989	**1990**	Growth (decrease) 1990 over 1989 %
Operating services	235	283	297	302	**334**	10.6
Charge card	154	158	164	161	**174**	8.1
Securities and safekeeping	48	45	160	171	**162**	(5.3)
Foreign exchange	92	112	129	116	**160**	37.9
Loan fees	134	151	165	139	**141**	1.4
Trust income	105	123	126	125	**140**	12.0
Other	51	46	94	105	**91**	(13.3)
Total	819	918	1,135	1,119	**1,202**	7.4
Other Operating Income as a % of Total Revenue	26	30	31	31	**33**	

Bank of Montreal has approximately 75% of the affinity card market in Canada and is the fifth largest Mastercard issuer in the world.

Strong growth in foreign exchange revenues.

Building fee revenue is a major priority. In 1990, revenue from fee-based services increased to 33% of total revenue.

The highest rates of growth were in foreign exchange activity, trust income, operating services and charge card fees.

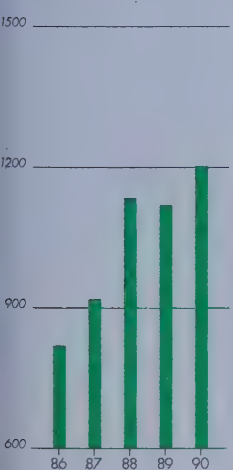
Growth of 38% in foreign exchange revenue confirms the Bank's strong reputation as an industry leader in foreign exchange trading.

Trust income, which is entirely earned by Harris, increased 12% over 1989. The growth was due to an increase in trust assets under administration. Trust income represents over 40% of Harris' other operating income.

Revenues from operating services increased 11% mainly due to a larger volume of transactions. In keeping with the Bank's strategy of ensuring customer value for money, the Bank froze retail prices in Canada for nearly three years from May 1987 to January 1990. The increases made in 1990 excluded several categories of retail accounts.

Charge card income increased 8% over 1989 mainly due to an increase in merchant sales volumes. This reflects the Bank's success in expanding the number of merchants using Bank of Montreal MasterCard and increased volumes by existing merchants. Bank of Montreal continues to offer customers a no fee MasterCard. Bank of Montreal is the largest MasterCard issuer in Canada and is the fifth largest issuer in the world. Bank of Montreal is also the market leader in affinity cards in Canada, with 195 groups or approximately three-quarters of the potential market.

Chart 5
Other Operating Income
($ millions)



The categories 'Securities and safekeeping' and 'Other' on Table 5 include fees earned from the sale of Canada Savings Bonds and fee income earned by Nesbitt from sales of equity and other securities. Uncertainty in the equity markets and the high level of interest rates available on other investments resulted in lower levels of activity during the past year.

Productivity–Expense Containment

Non-interest expense consists of employee salaries and benefits, premises and equipment costs and all other expenses. In 1990, expenses amounted to $2,453 million, an increase of $123 million or 5% from last year. Excluding the approximately $20 million cost of the staff reduction program at Harris, non-interest expense increased by 4%. The Bank's productivity program continues to yield savings allowing the Bank to invest in technology and improve customer service, while containing growth to less than inflation. The major components of non-interest expense are detailed in Table 6.

Employee salaries and benefits represented 57% of non-interest expense. These costs were $1,392 million, 8% higher than last year. Excluding the effect of one-time cost pressures in Harris and highly inflationary conditions in Brazil, the increase was 5%. In Harris, the staff reduction program resulted in a cost for severance and benefit payments of approximately $20 million. BAMI's employee costs rose by $10 million due to mandated increases under the Brazilian government's economic program. The remainder is attributable to merit increases granted during the year and higher pension and benefits costs.

Control over employee expenses is critical to the Bank's program to improve productivity. At October 31, 1990, the Bank employed 33,580 employees, down from 34,482 employees three years ago. Since 1987, the transaction processing and head office staff groups have reduced their workforce by approximately 2,000 positions. Efficiencies realized through consolidation of back office activities, reducing layers of management, and increasing spans of control have allowed the Bank to reduce the overall workforce while at the same time increasing the number of customer service personnel.

Premises and equipment costs increased from $462 million in 1989 to $489 million in 1990, an increase of 6%. Investments in branch premises and technology have improved service to customers. During 1990, twelve new branches were opened bringing the total to 1,242. In addition, over 130 branches were renovated to provide better customer service. The number of automated banking machines in the Bank's national distribution network has increased by nearly 25% to a total of 1,163. Several new systems have been implemented allowing the Bank to more effectively respond to customer requirements. For example, a new state-of-the-art system was introduced in 1990 for MasterCard which provides additional capacity for the Bank to expand

The Bank's distribution and quality of service was improved with 25% more banking machines and twelve new branches.

its credit card business and provides detailed on-line customer enquiry. The system improves productivity and allows the Bank to provide faster, more effective service to customers.

Other expenses totalled $572 million, $5 million lower than 1989, and represented 23% of total non-interest expense. The major components of other expenses are provided in Table 6. Increases in certain expenses are difficult to control. For example, business and provincial capital taxes have increased 31% from 1989 due to the introduction of a capital tax in Alberta, and increases in other taxes. Canadian deposit insurance premiums increased as a result of deposit growth. The Bank successfully reduced professional fees, travel and business development and other miscellaneous expenses by enough to more than offset the increases in uncontrollable other costs.

Table 6
Non-Interest Expense

($ millions)	1986	1987	1988	1989	**1990**	Growth (decrease) 1990 over 1989 %
Salaries and Staff Benefits	1,060	1,109	1,265	1,291	**1,392**	7.8
Premises and Equipment						
Rental and depreciation of premises	95	105	119	120	**140**	16.7
Maintenance and repairs	76	79	81	82	**83**	1.2
Property taxes	28	30	34	34	**35**	2.9
Other	70	78	80	78	**76**	(2.6)
Computer costs	121	143	161	148	**155**	4.7
	390	435	475	462	**489**	5.8
Other						
Communications	99	99	112	110	**118**	7.3
Business and capital taxes	58	70	50	52	**68**	30.8
Stationery and printing	40	41	46	50	**52**	4.0
Professional fees	43	43	48	57	**51**	(10.5)
Travel and business development	58	60	65	63	**62**	(1.6)
Canada deposit insurance	20	26	26	28	**30**	7.1
Other	167	172	210	217	**191**	(12.0)
	485	511	557	577	**572**	(0.9)
Total	1,935	2,055	2,297	2,330	**2,453**	5.3
Year over Year Growth %	8.3	6.2	11.8*	1.4	**5.3**	

*The sharp increase in expense growth in 1988 reflects the acquisition of Nesbitt in September 1987.

Summary

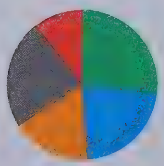
The Bank is tackling both the revenue and the expense dimensions of the productivity issue. Greater capacity to generate revenue is being built by increasing the flexibility and responsiveness of our community branches to local conditions. Bank executives have been relocated to communities across the country and been given increased decision-making authority. The number of branches and automated banking

machines has been increased, systems have been enhanced to provide better and faster service and some twelve thousand staff have received intensive customer service training. For corporate and institutional clients, our capabilities for loan origination and distribution, foreign exchange, cash management and other services are fully competitive.

Expenses have been well controlled by consolidation and automation of back office transaction activities, by reducing levels of management and by other activities to lower the cost base. The Bank's fundamental philosophy is that the provision of banking services in the most efficient manner at the lowest possible cost results in customer service of the highest quality.

Asset Quality Remains Strong

Chart 6
Assets
(%) Mix
As at October 31, 1990

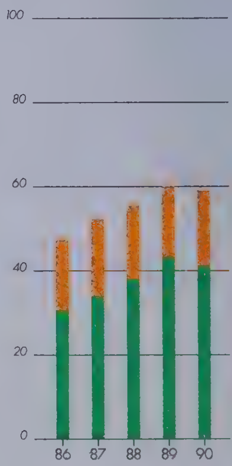


Asset quality, as measured by the provision for credit losses as a percentage of average loans, was 0.31% in 1990. The Bank's ratio was the best among the six largest Canadian banks, which averaged 0.48%. (Excluding LDC reversals in 1990, the Bank's ratio was 0.35% compared to 0.52% for the six banks.)

In 1990, total assets grew $8.5 billion or 11% to $87.4 billion. Growth occurred largely in personal and mid-market commercial loans and deposits with other banks. Charts 6 and 7 show the composition of the Bank's assets. At year-end, Canadian dollar assets represented approximately 59% of total assets.

The Bank's portfolio of loans and deposits with other banks, which represents about 75% of assets, is described in the following section. The composition of liquid assets is provided in the liquidity section on page 39. The remaining assets consist largely of land, buildings and equipment, accrued interest receivable, deferred income taxes and bankers' acceptances. Also included in other assets is goodwill arising on acquisition of the Bank's subsidiaries. Details on the composition of goodwill by major subsidiary and the remaining amortization periods are provided in note 7 to the financial statements.

Chart 7
Assets
Canadian dollar assets
As a % of total assets



Loans and Deposits with Other Banks

The quality of the Bank's loan portfolio is essential to long term profitability. The Bank's loan portfolio is well diversified. Diversification policies limit exposure to individual borrowers or connections, particular industries, the purpose of the financing and geographic regions. Note 8 to the financial statements provides details of the geographic distribution of assets by location of ultimate risk.

Table 7
Loans And Deposits With Other Banks
As at September 30

($ millions)	1989 $	1989 % of Mix	1990 $	1990 % of Mix
Individuals				
Mortgages	10,542	16.4	**12,482**	**18.8**
Cards	2,203	3.4	**2,467**	**3.7**
Personal loans	7,734	12.0	**8,581**	**12.9**
	20,479	31.8	**23,530**	**35.4**
Financial Institutions				
Deposits with Other Banks	6,995	10.9	**10,152**	**15.3**
Other	7,133	11.0	**5,821**	**8.7**
	14,128	21.9	**15,973**	**24.0**
Construction and Real Estate	5,468	8.5	**6,324**	**9.5**
Manufacturing	5,196	8.1	**4,899**	**7.4**
Mining and Energy	4,573	7.1	**2,666**	**4.0**
Service Industries	3,629	5.6	**3,318**	**5.0**
Retail and Wholesale Trade	2,576	4.0	**2,563**	**3.9**
Agriculture	1,359	2.1	**1,457**	**2.2**
Transportation, Communications and Utilities	1,057	1.6	**994**	**1.5**
Other	5,967	9.3	**4,749**	**7.1**
Gross Loans and Deposits with Other Banks	64,432	100.0	**66,473**	**100.0**
Reservations for loan losses	(2,484)		**(2,296)**	
Loans and Deposits with Other Banks Net of Reservations	61,948		**64,177**	
Deduct Deposits with Other Banks	(6,995)		**(10,152)**	
Loans Net of Reservations	54,953		**54,025**	

During 1990, major areas of concern in the banking industry in North America have been inadequate industry and geographic diversification, quality of real estate loans, problem leveraged financings and exposure to lesser developed countries. Details on the Bank's exposure in each of these areas follows.

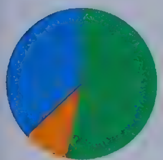
The loan portfolio is well diversified with a substantial base of individual borrowers and no more than ten percent in any one business sector.

Excluding deposits and loans with other financial institutions and loans to individuals, there is no sector to which the Bank has exposure in excess of 10% of total loans and deposits with other banks. Consistent with our strategic priority of growing personal and mid-market commercial business, loans to individuals increased from 31.8% of the total to 35.4%.

Chart 9
Loans to Individuals
90 Day Delinquency Ratio

Loans to Individuals

Chart 8
Loans to Individuals
(%) Mix
As at September 30, 1990



Loans to individuals have become an increasingly important proportion of the Bank's portfolio. In 1990, these loans grew 15% over 1989. We consider the portfolio to be of very high quality: less than 1/2 of 1% is on a non-performing basis. The 90 day or over delinquency rate, including mortgages, at 0.57% at October 31, 1990, while up from 0.46% a year ago is still at a satisfactory level.

Real Estate Financing other than Mortgages

The Bank's real estate financings (loans and off-balance sheet exposure) other than mortgages totalled $5.9 billion at October 31, 1990. The portfolio is well diversified by type of property, borrower and geographic location. The largest borrower represents only 2% of the total real estate portfolio. Principal financings include land development,

industrial and office buildings, shopping centres, apartment buildings, residential homes and other mixed-use projects.

The geographic distribution of the Bank's Canadian and U.S. real estate exposure is shown on Charts 10 and 11. Just over half of the Bank's real estate portfolio is in Canada, with most of the balance located in the United States. The remaining exposure is in the United Kingdom and is limited to a small number of top tier, diversified corporations.

Real Estate Portfolio
(%) As at October 31, 1990

Chart 10
Canada
(53% of Total)

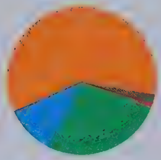
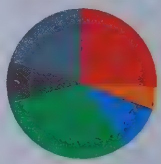


Chart 11
United States
(42% of Total)



In the United States, there has been a deterioration in many market areas, particularly in New York City where problem accounts represent about 40% of the Bank's non-performing real estate loans. The Bank has no exposure in the New England states. U.S. non-performing real estate loans represent 6% of the total real estate portfolio.

In Canada, the deterioration in the real estate market has not been as great as in the United States. However, high interest rates and a lack of consumer confidence have resulted in price softening and a sharp reduction in sales in the residential market throughout the country. Exposure to residential condominiums represents about 7% of the total real estate portfolio. The Bank has avoided investor-driven residential condominium financing. In the commercial market, while office vacancies in major cities are on the rise, the Bank's portfolio is well diversified throughout the country. Canadian non-performing real estate loans represent 2% of the total real estate portfolio.

Leveraged Financing

The Bank's loan diversification policy clearly defines characteristics under which a transaction is classified as a leveraged financing. These include loans where debt servicing depends on an unusually high proportion of future cash flow, asset sales or improved financial performance. In addition, the Bank considers a loan to be a leveraged financing where a company's debt exceeds the book value of its equity and/or the debt-to-equity ratio is high in relation to the industry.

The Bank monitors its exposure to leveraged financings on a weekly basis. Limits are placed on the exposure in total, on specific industries and to individual customers, as well as on the underwriting and retention levels. The total portfolio consists entirely of senior debt and does not contain equity or subordinated debt.

The Bank's exposure by industry is detailed in Table 8. The portfolio is almost entirely based in the U.S. and the balances include outstanding operating lines of credit and risk protection lines. The portfolio represents 48% of the Bank's common equity. The largest borrower represents only 7% of the total leveraged financing portfolio and 12% of the portfolio net of reservations is on a non-performing basis.

Chart 12
Leveraged Financing
(%) Mix
As at October 31, 1990

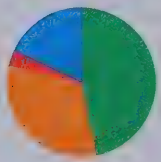


Table 8
Leveraged Financing
Outstandings
As at October 31

($ millions)	1989		1990	
	$	% Mix	**$**	**% Mix**
Manufacturing				
Transportation Equipment	176	9.9	**149**	**9.0**
Beverage	148	8.3	**101**	**6.1**
Printing and Publishing	129	7.2	**81**	**4.9**
Food	67	3.8	**22**	**1.3**
Electrical and Electronic Products	52	2.9	**49**	**2.9**
Plastic Products	49	2.8	**76**	**4.6**
Other	212	11.9	**300**	**18.0**
Retail Trade	255	14.3	**384**	**23.1**
Wholesale Trade	198	11.1	**146**	**8.8**
Transportation	129	7.2	**55**	**3.3**
Potash Mining	66	3.7	**63**	**3.8**
Other	300	16.9	**236**	**14.2**
	1,781	100.0	**1,662**	**100.0**

Exposure to Lesser Developed Countries

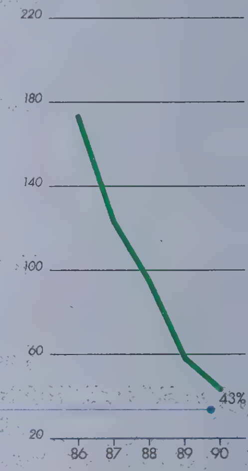
The Bank's exposure to lesser developed countries (LDCs) consists of loans, securities and equity investments to 10 of the 43 countries which have been designated by the Office of the Superintendent of Financial Institutions (OSFI) for special reporting and provisioning. Exposure to 9 designated countries has been eliminated over the past two years. The Bank's LDC exposure by major country for the past five years is shown in Table 9.

Table 9
LDC Portfolio Summary
As at October 31

($ millions)	1986	1987	1988	1989	**1990**
Mexico	1,922	2,005	2,266	2,107	**1,191**
Brazil	1,722	1,575	1,376	1,209	**995**
Venezuela	587	526	465	485	**453**
Argentina	421	394	390	362	**344**
Other	1,276	1,239	750	398	**270**
Gross Exposure	5,928	5,739	5,247	4,561	**3,253**
Reservations	(757)	(2,041)	(2,082)	(2,764)	**(1,782)**
Net Exposure	5,171	3,698	3,165	1,797	**1,471**
Write-Offs on Refinancings	–	–	–	–	**759**
Provisioning Ratio	12.8	35.6	39.7	60.6	**63.3**

Note: For purposes of calculating the provisioning ratio, write-offs on refinancings are added back to both gross exposure and reservations as directed by the OSFI.

Chart 13
Net LDC Exposure
(% of Common Shareholders' Equity)



Managing the LDC Portfolio During the 1990 fiscal year, the Bank reduced gross LDC exposure by $1.3 billion through restructuring agreements, sales and write-downs. These actions also improved the quality of the portfolio. Satisfactory restructuring agreements were negotiated with Mexico, Venezuela and Costa Rica. While allowing the debtor countries some interest relief, the restructured debt provides the Bank with better security and increased reliability of future interest receipts through interest guarantees. Net exposure was reduced by about $300 million, or 18%, during the year primarily by way of loan sales at average prices in excess of prevailing secondary market and also book values. The resulting reservation reversals were not taken into income and the Bank's transborder provisioning ratio increased from 61% to 63%. By October 31, 1990, LDC exposure, net of reservations, had been reduced to 43% of common shareholders' equity, down from 58% a year ago.

During 1990, loans to Mexico were restructured whereby virtually all the Bank's exposure to that country was written down by 35% and the balance secured by 30-year U.S. and Canadian government bonds providing for full payment of principal at maturity.

Table 10
LDC Exposure
As at October 31, 1990

($ millions)	
Collateralized Debt and Equity Investment Funds	
Mexico—refinanced and discounted by 35% in 1990 —collateralized by 30 year Canada and United States zero coupon bonds, reported net of collateral value	1,160
Brazil—equity and equity investment funds	174
	1,334
Medium and Long-Term Debt	
Brazil	821
Venezuela	453
Argentina	344
Other	301
	1,919
Reservations	1,782
Overdue/Unaccrued Interest	
Brazil	123
Argentina	79
Other	85
	287

Interest earned on the restructured Mexican debt is at a floating rate based on "LIBOR" (London Inter-Bank Offered Rate) and is guaranteed on a rolling 18 month basis. As a result of the agreement, interest revenue from Mexico was about $70 million less in 1990 than in 1989.

Brazil continued to be in default on its interest payments throughout 1990. However, the Bank received dividends of U.S. $12.5 million in 1990 and U.S. $7.1 million in 1989 from the debt/equity conversion fund which was established in 1988. Including these dividends, interest receipts from Brazil were about $55 million lower

in 1990 than in 1989. Ongoing negotiations with Brazil should result in restructuring of their debt.

Negotiations with Venezuela have resulted in an agreement to restructure their debt. In order to maximize shareholder value, the Bank has elected to convert at par, U.S.$150 million of existing Venezuelan debt to bonds paying a market rate of interest. This option will require the advancement of U.S.$30 million in new loans. The remaining debt will be converted to temporary interest-reduction bonds with a rolling 12 month interest guarantee. The actual debt conversion is expected to take place in the first quarter of fiscal 1991.

In April 1990, the Bank assigned U.S. $100 million of Argentine debt to a privatization fund for the purpose of investing in Argentine companies. In May 1990, loans to Costa Rica were restructured resulting in a reduction in exposure and an interest guarantee.

When the restructuring of loans to Venezuela is completed, it is expected that the Bank will have collateral securing 12 to 18 months of interest payments on 47% of the total LDC debt portfolio.

Non-performing Loans

Non-performing loans are those loans and loan substitution securities which have been placed on a non-accrual basis, generally due to non-payment of interest or principal for 90 days, or because management believes that the collectibility of principal or interest is in significant doubt. Details of the accounting treatment for non-accrual loans is provided in note 1 to the financial statements. Non-performing loans also include loans which have been renegotiated at a reduced interest rate and approximately $130 million in real estate acquired in relation to problem loans. Non-performing loans are reported net of reservations which comprise specific and general reservations set aside to absorb possible losses.

The Bank's level of non-performing loans, net of reservations for losses, was $923 million at year-end 1990, compared to $785 million at the end of fiscal 1989. The year-over-year increase reflects the economic decline in North America. The extent of the increase was mitigated by the restructuring of loans to a major account in the mining sector which reduced net non-performing loans by approximately $100 million.

The decline in North American economies has resulted in an increase in non-performing loans for the banking industry generally. The Bank experienced a smaller rate of increase than most Canadian banks.

The Bank's credit review policies call for prompt recognition of problem accounts, the transfer to specialized management within the Bank as early as possible and the establishment of reservations as soon as value impairment occurs. This special account management unit works closely with borrowers to assist in the improvement of their financial condition and thereby improve the potential for restoring the loans to performing status. As a result, the Bank has been successful in minimizing losses. In addition, a significant number of accounts classified as non-performing require no reservations as the ultimate collectibility of principal is not in doubt. An indicator of the continuing effectiveness of the credit review process is the high yield which the Bank achieves on non-performing loans. In 1990, the yield (represent-

ing cash receipts less interest reversals) on average net non-performing loans was 13.1%. This is down from 20.5% reported in 1989, primarily as a result of the significant decline in revenues from Brazil referred to on page 25.

Table 11
Non-Performing Loans

($ millions)	1986	1987	1988	1989	**1990**
Non-Performing Loans At October 31					
LDC – gross	860	2,182	1,651	1,996	**1,817**
– reservations	(757)	(2,041)	(2,082)	(2,764)	**(1,782)**
Net LDC	103	141	–	–	**35**
Other – gross – consumer	15	14	15	15	**23**
– mortgages	80	58	95	73	**76**
– other	2,666	1,842	1,622	1,183	**1,346**
– reservations – specific	(869)	(651)	(571)	(446)	**(497)**
– general	–	–	–	(40)	**(60)**
Net Non-LDC	1,892	1,263	1,161	785	**888**
Total Non-Performing Loans	1,995	1,404	1,161	785	**923**
Interest income on non-performing loans	120	112	341	181	**104**
Yield on average non-performing loans	7.6	5.9	20.1	20.5	**13.1**

Provision For Credit Losses

The Bank regularly reviews its portfolio of loans and other on- and off-balance sheet exposures to establish the estimated realizable principal value, taking into account the industry, business conditions, and payment record of specific borrowers. As a result of these reviews, provisions are established to offset any estimated impairment of principal.

In 1990, the Bank's provision for credit losses was $169 million compared to $1,181 million in 1989. The 1989 provision included $1 billion pertaining to the LDC portfolio. In 1990, no further provisions on the LDC portfolio were required.

Table 12
Provision For Credit Losses

($ millions)	1986	1987	1988	1989	**1990**
Bank of Montreal (Parent)					
LDC	129	1,233	238	941	**(21)**
Retail	39	38	35	36	**45**
Other	379	(31)	53	72	**72**
	547	1,240	326	1,049	**96**
Harris					
LDC	–	66	–	59	**–**
Other	56	66	60	70	**70**
	56	132	60	129	**70**
BAMI	2	2	4	3	**3**
Summary					
LDC	129	1,299	238	1,000	**(21)**
Other	476	75	152	181	**190**
Total	605	1,374	390	1,181	**169**

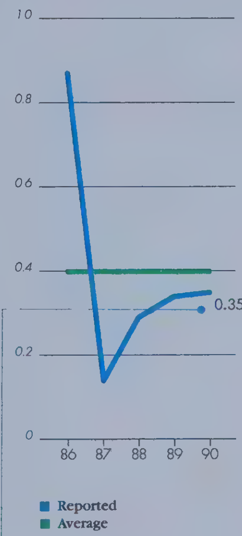
Over time, provisions may prove to be too high or too low as the financial condition of borrowers change and the estimated realizable principal value increases or decreases. As a result, adjustments are made on a regular basis to previously established provisions. Therefore, the quality of a bank's loan portfolio and the effectiveness of its management of credit risk can be best determined by considering the longer term pattern of loan losses rather than the provision recorded in any particular year.

The $169 million charged against income in 1990 included a reversal of reservations of approximately $90 million as a result of the restructuring of loans to a major account in the mining industry. Despite the general decline in economic conditions, high interest rates, and problems in the real estate industry, the Bank has been successful in minimizing losses.

During 1990, the Bank reduced its net LDC exposure primarily by way of loan sales at average prices in excess of book values. As a result, the Bank was able to reallocate $20 million of LDC reservations to general reservations for possible additional losses, currently not specifically identified.

The non-LDC provision for credit losses is shown in Chart 14, as a percentage of average loans on a year by year basis. The average over the five year period is also shown. The Bank's ratio of provision for credit losses to average loans was 0.31% in 1990. After adjusting for the reallocation of LDC reservations in 1990, the ratio was 0.35%. The ratio for 1990 and the average over the five year period were below the average of the six largest Canadian banks reflecting the Bank's effective credit control process.

Chart 14
Provision for Credit Losses
Non-LDC Losses
As a % of Average Loans



The Bank's credit control and portfolio management processes keep loan losses low and relatively stable.

Strong Capital Base Provides A Solid Foundation

The Bank's capital base provides the foundation for lending, off-balance sheet transactions and other activities. Capital adequacy is measured based on the Office of the Superintendent of Financial Institutions' interpretation of the Bank for International Settlements (BIS) guidelines. Under these guidelines, banks are required to maintain a minimum level of capital based on their risk-adjusted assets. The Bank well exceeds these minimum levels and expects to continue to do so.

The standards require progressively higher levels of capital. In 1990, the Bank was required to maintain capital equal to 7.25% of risk-adjusted assets. By 1992, the Bank will be required to maintain core capital (Tier 1) of at least 4% and supplementary capital (Tier 2) sufficient to bring total capital to 8%.

Tier 1 capital consists of common shareholders' equity, non-cumulative long-term preferred shares and minority interest, less goodwill. For Canadian purposes, Tier 2 capital consists of cumulative long-term preferred shares and subordinated debt less investments in associated corporations (20% – 50% owned) and does not include revaluation reserves or general reservations on loans.

As shown in Table 13, the Bank's capital ratio at 8.3% is well in excess of the 1990 requirement and already exceeds the 8% required by 1992. The capital at year-end would support over $2 billion in additional risk-adjusted assets and still meet the total capital ratio of 8% required by 1992.

The Canadian application of the BIS guidelines is generally more rigorous than that of other countries. For example, under the rules applicable in the United States in 1990, the Bank's capital ratio would be 9.8%.

Table 13
Capital Funds

($ millions)	1989	**1990**
Tier 1		
Common shareholders' equity	3,097	**3,451**
Non-cumulative preferred shares	200	**200**
Minority interests	43	**41**
Less:Goodwill (1)	–	**(61)**
Total Tier 1 Capital	3,340	**3,631**
Tier 2		
Cumulative preferred shares	275	**275**
Subordinated debt	1,429	**1,565**
Total Tier 2 Capital	1,704	**1,840**
Total Capital	5,044	**5,471**
Risk-Adjusted Assets	63,105	**65,959**
Risk-Adjusted Capital Ratios (%)		
Tier 1	5.3	**5.5**
Total	8.0	**8.3**
Regulatory Required Capital Ratio (%)		
Tier 1		**3.625**
Total		**7.25**

(1)Under the transitional guidelines, 1/3 of goodwill is deducted in 1990, 2/3 in 1991 and the full amount in 1992.

Current capital ratios exceed regulatory requirements established for 1992.

The Bank's Tier 1 ratio improved from 5.3% in 1989 to 5.5% in 1990 mainly due to internally generated capital and common shares purchased through the dividend reinvestment and share purchase plan. The Tier 2 ratio remained virtually unchanged. The redemption in December 1989 of all of the Class A Preferred Shares Series 2 amounting to $175 million was offset by an issue of $150 million in subordinated debentures in August 1990.

The Bank's on- and off-balance sheet position at October 31, 1990 is shown in Table 14. As prescribed by the BIS guidelines, the risk-adjusted balance is calculated based on applying a risk-weighting ranging from 0% to 100%, (depending upon the deemed credit risk of the counterparty) to the amount of balance sheet assets and to the credit risk equivalent of off-balance sheet items.

Table 14
Risk-adjusted Assets And Off-balance Sheet Items

($ millions)	Balance	Credit Risk Equivalent	Risk-Weighting %	Risk-Adjusted Balance
Balance Sheet Items				
Cash Resources	12,502		0-20	2,233
Securities	12,238		0-100	2,998
Mortgages	15,505		0-100	6,874
Other Loans	39,601		0-100	34,552
Other Assets	7,524		0-100	7,282
	87,370			53,939
Off-Balance Sheet Items				
Letters of Credit and Guarantees	4,048	3,250	20-100	3,017
Commitments	39,748	7,460	0-100	7,210
Foreign Exchange Rate Contracts	138,349	4,675	0-50	1,209
Interest Rate Contracts	40,393	375	0-50	106
Other	1,234	871	0-100	478
	223,772	16,631		12,020
Total	311,142			65,959

Off-balance Sheet Activities

The Bank offers a variety of off-balance sheet products to its customers to meet their needs for foreign exchange and interest rate protection and for obtaining alternative sources of financing. These products generate trading and fee income. The Bank also uses these products to manage its own interest rate risk.

Table 14 shows a breakdown of the Bank's major off-balance sheet items. Off-balance sheet activities are subject to the same credit standards that are applied to the extension of loans.

Guarantees and Letters of Credit are mainly conditional commitments made by the Bank on behalf of customers in favour of third parties.

Commitments are credit instruments which allow customers access to funds as required.

Foreign exchange rate contracts allow customers guaranteed exchange rates for future dates for quantities of currency and thereby protect the customers from adverse changes in exchange rates.

Interest rate contracts allow customers to modify or reduce their exposure to changes in interest rates. Customers may enter into forward rate agreements, interest rate options, or swaps, which allow them to exchange fixed rate instruments for floating rate instruments and vice versa.

Substantial Liquidity Provides Flexibility

The Bank, as a matter of policy, maintains a high level of liquidity. In general, liquidity is generated through growth in core deposits. As a result of our level of deposits and loans in Canada, we have more liquidity than required by policy and more than other large Canadian banks.

Liquidity management is critical to the stability of the Bank. The purpose of liquidity management is to ensure there is sufficient cash flow to meet all the Bank's financial commitments and provide the flexibility to capitalize on opportunities for expansion. The Bank's liquidity makes it possible to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to have available funds for lending or investment as the opportunities arise.

It is the policy of the Bank to maintain a significant proportion of its assets in liquid form in both Canadian and U.S. dollars. These assets comprise : cash resources; deposits with major international banks; liquid securities including Government of Canada Treasury Bills; and day, call and short loans consisting largely of secured overnight advances to securities dealers.

At October 31, 1990, liquid assets were 27.1% of total assets. This is a higher level of liquidity than is necessary. Liquid assets have little or no credit risk and consequently generally earn a lower rate of interest than loans. Therefore, when liquidity is higher than necessary, the Bank is not maximizing its earnings potential. However, if liquidity is too low, the Bank would subject itself to undue risk that it might not be able to meet its financial commitments. The Bank intends to lower the level of liquidity to a more optimum level, as conditions allow, and therefore enhance earnings while at the same time ensuring there is adequate liquidity.

Table 15
Liquidity
As at October 31

($ billions)	1986	1987	1988	1989	**1990**
Cash Resources	2.2	2.6	2.0	2.0	**1.7**
Deposits with Other Banks	12.3	11.0	8.2	6.6	**10.8**
Liquid Securities	9.2	10.3	9.6	9.6	**10.7**
Day, Call and Short Loans	1.1	1.1	0.5	0.3	**0.5**
Total	24.8	25.0	20.3	18.5	**23.7**
As a % of Total Assets	28.4	29.7	25.7	23.4	**27.1**

A better measure of liquidity involves a comparison of liquid assets to the requirements for liquidity, such as potential deposit withdrawals, repayment of borrowings and meeting commitments for loans not yet drawn down. On this basis, our liquid asset position at October 31, 1990 could immediately meet over 30% of estimated potential requirements. This was the strongest position among the six largest Canadian banks.

Deposits

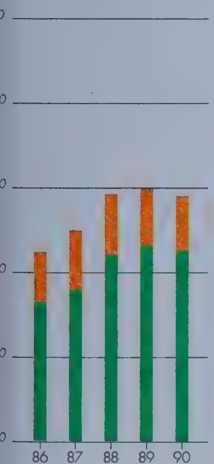
Our solid liquidity position is enhanced by a well developed deposit base which is stronger than our lending base. Total deposits of $73.3 billion at October 31, 1990 were 11% higher than last year. Canadian dollar deposits have increased steadily throughout the past five years and are now over 58% of the total, compared to about 45% in 1986. Canadian dollar deposits, particularly those from individuals, which have shown the greatest growth, are of considerable importance to the Bank because of the stability they provide. The Bank has no dependence on wholesale funding in Canadian dollars.

Table 16
Deposits

($ billions)	1986	1987	1988	1989	**1990**
Canadian Currency Deposits					
By Governments	0.4	1.2	0.6	0.3	**0.7**
By Banks	1.0	1.3	1.3	1.2	**1.5**
By Individuals	24.7	25.8	27.3	30.5	**33.1**
Other	7.3	7.6	7.6	7.4	**7.2**
Total	33.4	35.9	36.8	39.4	**42.5**
Foreign Currency Deposits					
By Banks	17.6	15.5	10.7	9.3	**12.3**
By Individuals	4.1	4.3	4.3	4.4	**4.8**
Other	19.8	16.4	14.6	12.8	**13.7**
Total	41.5	36.2	29.6	26.5	**30.8**
Total Deposits	74.9	72.1	66.4	65.9	**73.3**

Canadian dollar deposits provide a stable funding base. The Bank is not dependent on wholesale funding for its Canadian dollar assets.

Chart 15
Canadian Dollar Deposits
As a % of Total Deposits



Individuals
Other

The mix and term of deposits also affects the Bank's net interest spread. The Bank's deposit mix and cost is provided in the Yield, Cost and Mix table on page 46. The interest rate sensitivity table on page 26 shows the composition of deposits by term which governs the timing for application of changes in interest rates.

Annual Share Price Performance and Dividend Yield—Better Than Most

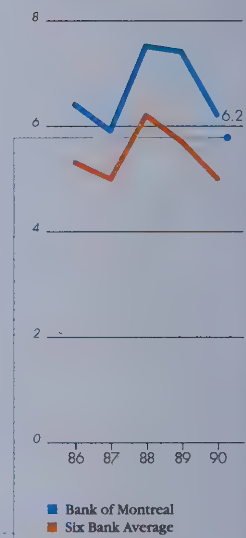
The return from an investment in shares consists of the total of dividends earned and the capital gain or loss on the shares over a specific period. Over the past two years, using November 1, 1988 as a starting point, the return on investment on the Bank's common shares was 9.5%.

During the year ended October 31, 1990, the return on investment was generally negative for all stocks as the Toronto Stock Exchange (TSE) 300 Index fell by over 21%. The index of all bank stocks experienced an even steeper decline, perhaps due to concerns over the problems experienced by the U.S. financial industry and the deterioration in the North American economy.

Table 17
Return on Investment in Bank of Montreal

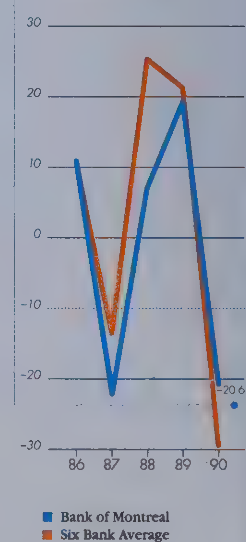
	1989	1990	Total 2-Year Period
Opening price—start of fiscal year—$	28.50	**34.00**	
Closing price—end of fiscal year—$	34.00	**27.00**	
Capital gain or (loss)—$	5.50	**(7.00)**	(1.50)
Return on investment—% of Opening price			
Capital gain or (loss)	19.3	**(20.6)**	(5.3)
Dividend yield	7.4	**6.2**	14.8
Total—%	26.7	**(14.4)**	9.5

Chart 16
Dividend Yield (%)
On Share Price
At Beginning of Fiscal Year



Bank of Montreal outperformed both the TSE 300 and the bank index in 1990 and over the two year period beginning November 1, 1988. The market's relative confidence in the Bank's shares reflected the strength of our prudential measures and the superior yield provided by our dividend.

Chart 17
Capital Gain (Loss)
As % of Share Price
At Beginning of Fiscal Year



Government Levies

Income Taxes

In 1990, the Bank's provision for income taxes was $435 million or 45.3% of income before taxes. This rate is higher than the statutory marginal rate of 41.7% applicable in 1990 largely because the effective tax rate for BAMI, the Bank's Brazilian subsidiary, after giving effect to the foreign currency translation loss, is 83.7%. As shown in Table 18, excluding this foreign currency translation loss, the tax rate was 40.6%. This rate is somewhat lower than the statutory rate primarily because of lower average income tax rates applicable to the income earned outside Canada by certain foreign operations, such as Harris, which reduce the aggregate tax rate of the Bank.

Table 18
Income Taxes

($ millions)	1986	1987	1988	1989	1990
Income before taxes	359	840	880	2	**960**
Add back foreign currency translation loss reported net of tax	1	27	53	90	**111**
Adjusted income before taxes	360	867	933	92	**1,071**
Provision for income taxes	45	313	374	36	**435**
Adjusted effective tax rate (%)	12.5	36.1	40.1	39.1	**40.6**
Statutory tax rate (%)	49.6	48.9	46.0	41.6	**41.7**

Other Government Levies

In addition to income taxes, the Bank also incurs other government levies.

In 1990, the amount of capital taxes levied upon the Bank was $74 million, an increase of 35% over 1989. The introduction of a capital tax in Alberta and higher rates in other provinces were responsible for the increase. Federal capital taxes are accounted for as a reduction of federal taxes otherwise payable whereas provincial capital taxes are accounted for as other non-interest expense.

In addition to direct taxes on income and capital, Canadian chartered banks and trust companies are required to pay deposit insurance premiums. The amount paid by the Bank for 1990 was $30 million. Table 19 details some of the other government levies paid by the Bank.

Table 19
Other Government Levies

($ millions)	1989	**1990**
Capital taxes		
Federal	23	**29**
Provincial	32	**45**
Property taxes	34	**35**
Business taxes	20	**23**
Canada deposit insurance	28	**30**

Capital, property and other business taxes rose by $23 million or more than 20% over 1989.

Furthermore, Canadian chartered banks, unlike trust companies and other financial institutions, are subject to regulatory reserve requirements. In Canadian dollars, the Bank maintained an average of $1.0 billion in non-interest bearing primary reserves, and an average of $1.1 billion in secondary reserves. Both of these reserves are required by the Bank Act of Canada. In addition, regulatory reserves in the United States averaged approximately U.S. $196 million. Maintenance of these balances represents a real cost to the Bank, as the funds either earn a low rate of interest or do not earn any interest. Although some portion of these reserves are necessary for day-to-day transactions, the overall cost, in foregone interest revenue, exceeds $100 million annually. These reserves form part of the Bank's liquidity. Under legislative proposals announced in September 1990, the Government of Canada is considering removal of the requirement to hold non-interest bearing deposits with the Bank of Canada.

The implementation of the Goods and Services Tax (GST) in Canada and the elimination of the Federal Manufacturers Sales Tax will result in increased expense. The Bank, like other organizations, will pay this tax on our purchases of goods and services. Unlike other organizations, however, most bank services are not subject to GST and most of the GST cost which the Bank will pay will not be recoverable. As a result, the Bank estimates its expenses will increase by $20 to $30 million annually. In addition, the Bank has invested approximately $3 million in 1990 in necessary systems and other changes required to implement the GST. It is expected that a further $2 to $3 million will be expensed in 1991 in this regard.

GST is expected to increase bank expenses by $20-$30 million annually.

($ millions)	1990	1989*	1988*	1987*	1986*	1985*	1984*	1983*	1982*	1981*
Balance Sheet Data										
At October 31										
Assets										
Cash Resources	**12,502**	8,581	10,170	13,540	14,514	12,736	13,276	8,317	7,539	9,961
Securities	**12,238**	9,761	9,946	11,049	10,525	10,525	8,835	8,444	5,420	5,199
Loans	**55,106**	54,303	51,986	52,595	54,471	51,966	47,929	41,546	44,082	43,759
Acceptances	**3,508**	2,778	3,584	3,287	4,633	4,228	3,612	3,065	3,050	1,629
Other Assets	**4,016**	3,498	3,223	3,757	3,037	2,965	2,839	1,822	1,936	1,826
Total Assets	**87,370**	78,921	78,909	84,228	87,180	82,420	76,491	63,194	62,027	62,374
Liabilities, Share Capital and Retained Earnings										
Deposits	**73,321**	65,923	66,370	72,084	74,876	71,388	66,671	55,320	53,875	55,774
Other Liabilities	**8,650**	7,922	7,448	7,422	7,196	6,480	5,809	4,758	5,110	3,917
Subordinated Debt	**1,473**	1,329	1,307	1,259	1,463	1,100	1,065	728	726	654
Share Capital										
–Preferred	**475**	650	450	450	650	650	650	375	375	200
–Common	**2,276**	2,162	2,048	1,931	1,253	1,130	949	821	745	589
Retained Earnings	**1,175**	935	1,286	1,082	1,742	1,672	1,347	1,192	1,196	1,240
	87,370	78,921	78,909	84,228	87,180	82,420	76,491	63,194	62,027	62,374
Average Balances										
Loans	**53,742**	53,110	52,538	53,396	54,769	50,022	43,200	42,982	44,827	35,546
Assets	**82,452**	78,878	79,312	84,584	86,761	79,464	66,715	63,672	62,841	56,104
Income Statement Data										
Net Interest Income (TEB)	**2,562**	2,557	2,571	2,218	2,274	2,140	1,753	1,736	1,590	1,580
Other Operating Income	**1,202**	1,119	1,135	918	819	682	499	411	351	293
Foreign Currency Translation Gain (Loss)	**(111)**	(90)	(53)	(27)	(1)	2	5	–	–	–
Total Revenue	**3,653**	3,586	3,653	3,109	3,092	2,824	2,257	2,147	1,941	1,873
Provision for Credit Losses	**169**	1,181	390	75	605	330	365	550	550	268
Non-Interest Expense	**2,454**	2,330	2,297	2,055	1,935	1,788	1,384	1,249	1,163	1,005
Provision for Income Taxes (TEB)	**505**	109	460	452	238	309	211	159	83	278
Minority Interests	**3**	5	6	4	4	4	4	4	4	4
Net Income Before Special Provision	**522**	(39)	500	523	310	393	293	185	141	318
Special Provision Net of Income Taxes	**–**	–	–	765	–	–	–	–	–	–
Net Income/(Loss)	**522**	(39)	500	(242)	310	393	293	185	141	318

*Restated to conform with 1990 presentation

	1990	1989*	1988*	1987*	1986*	1985*	1984*	1983*	1982*	1981*
Common Share Information										
Common Shares										
Outstanding (000's)	**114,995**	110,760	106,762	102,091	81,265	77,426	70,498	65,383	62,553	56,299
Earnings per share ($)	**4.20**	(0.79)	4.38	(3.19)	3.16	4.46	3.52	2.35	1.79	5.51
Dividends Per										
Common Share ($)	**2.12**	2.12	2.00	2.00	1.96	1.96	1.96	1.96	1.96	1.80
Market Price										
Per Common Share ($)										
–High	**34.375**	35.250	29.750	39.250	35.250	31.500	28.375	33.625	27.375	34.750
–Low	**24.500**	26.625	24.625	25.500	27.250	23.250	21.375	23.500	16.750	22.625
–Close	**27.000**	34.000	28.500	26.625	34.125	30.750	23.625	27.125	24.000	24.875
Book Value										
Per Common Share ($)	**30.01**	27.96	31.23	29.51	36.85	36.19	32.56	30.78	31.03	32.49
Financial Measures										
Return on Investment										
–Dividend Yield (1)	**6.2**	7.4	7.5	5.9	6.4	8.3	7.2	8.2	7.9	6.0
–Capital Gain/(Loss) (2)	**(20.6)**	19.3	7.0	(22.0)	11.0	30.2	(12.9)	13.0	(3.5)	(17.1)
	(14.4)	26.7	14.6	(16.1)	17.3	38.5	(5.7)	21.2	4.4	(11.1)
Return on										
Common Equity	**14.6**	(2.5)	14.7	(9.3)	8.5	13.2	10.9	7.7	5.5	17.9
Growth in Revenues	**1.9**	(1.8)	17.5	0.5	9.5	25.1	5.1	10.6	3.6	27.7
Growth in Expenses	**5.3**	1.4	11.8	6.2	8.2	29.2	10.8	7.4	15.7	18.8
Differential	**(3.5)**	(3.3)	5.7	(5.7)	1.3	(4.1)	(5.7)	3.2	(12.1)	8.9
Productivity										
(Expenses to Total Revenue)	**67.2**	65.0	62.9	66.1	62.6	63.3	61.3	58.2	59.9	53.7
Capital Base										
Risk-adjusted										
Capital Ratios										
–Tier 1	**5.51**	5.29	5.16	n/a	n/a	n/a	n/a	n/a	n/a	n/a
–Tier 2	**2.78**	2.70	2.42	n/a	n/a	n/a	n/a	n/a	n/a	n/a
–Total	**8.29**	7.99	7.58	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Equity to Assets	**4.49**	4.75	4.80	4.11	4.18	4.19	3.85	3.78	3.73	3.25
Asset Quality										
Provision for										
Credit Losses										
To Average Loans	**0.31**	2.22	0.74	0.14	1.10	0.66	0.84	1.28	1.23	0.75
Other										
Number of Employees	**33,580**	33,666	34,115	34,482	32,988	33,281	33,598	29,125	29,866	30,488
Number of Branches	**1,242**	1,230	1,226	1,220	1,220	1,220	1,222	1,218	1,259	1,322

*Restated to conform with 1990 presentation

(1) Dividends per common share divided by prior year closing common share price

(2) Change in common share price during the year as a percentage of prior year closing common share price

($ millions)	1989			1990		
	Average Balances	Average Rate	Mix	**Average Balances**	**Average Rate**	**Mix**
Assets						
Deposits with Other Banks	7,126	11.12	9.0	**7,561**	**13.07**	**9.2**
Securities	10,039	12.52	12.7	**12,197**	**12.28**	**14.8**
Loans						
Canadian Currency						
—Mortgages	11,456	10.95	14.5	**13,572**	**11.41**	**16.5**
—Individuals	8,482	13.00	10.8	**9,347**	**14.03**	**11.3**
—Other Loans	11,723	13.06	14.9	**12,002**	**14.15**	**14.5**
	31,661	12.28	40.2	**34,921**	**13.06**	**42.3**
Foreign Currency	21,022	17.55	26.6	**19,049**	**13.21**	**23.1**
Total Loans	52,683	14.38	66.8	**53,970**	**13.11**	**65.4**
Total Earning Assets	69,848	13.78	88.5	**73,728**	**12.97**	**89.4**
Other Assets	9,030		11.5	**8,724**		**10.6**
Total Assets	78,878	12.20	100.0	**82,452**	**11.60**	**100.0**
Liabilities						
Deposits						
Canadian Currency						
—Demand	3,297	1.81	4.2	**2,951**	**2.69**	**3.6**
—Notice	20,606	8.23	26.1	**22,860**	**9.21**	**27.7**
—Term	13,620	9.16	17.3	**15,623**	**10.50**	**19.0**
	37,523	8.00	47.6	**41,434**	**9.23**	**50.3**
Foreign Currency	27,859	13.52	35.3	**27,997**	**10.26**	**33.9**
Total Deposits	65,382	10.35	82.9	**69,431**	**9.65**	**84.2**
Subordinated Debt and Other Interest-bearing Liabilities	2,283	13.10	2.9	**2,167**	**13.94**	**2.6**
Total Interest-bearing Liabilities	67,665	10.45	85.8	**71,598**	**9.78**	**86.8**
Other Liabilities	7,298	–	9.2	**6,969**		**8.5**
Shareholders' Equity	3,915	–	5.0	**3,885**		**4.7**
Total Liabilities and Shareholders' Equity	78,878	8.96	100.0	**82,452**	**8.49**	**100.0**
Net interest spread		3.24			**3.11**	

For discussion and analysis of spread refer to Net Interest Income & Spread on page 25.
Note: Foreign Currency average rates are high due to the effects of the Bank's Brazilian subsidiary. The highly inflationary environment in Brazil has resulted in high interest rates.

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Annual Financial Statements*
Bank of Montreal
Consolidated Statement of Assets and Liabilities

As at October 31 ($ in thousands)	1990	1989
Assets		
Cash Resources		
Cash and deposits with Bank of Canada	**$ 1,205,465**	$ 1,304,986
Deposits with other banks	**10,813,825**	6,586,011
Cheques and other items in transit, net	**482,791**	689,932
	12,502,081	8,580,929
Securities Issued or Guaranteed by (note 3)		
Government of Canada	**4,119,477**	3,917,222
Provinces and municipal or school corporations	**761,241**	472,153
Other	**7,357,333**	5,371,518
	12,238,051	9,760,893
Loans (net of allowance for credit losses of $2,334,129; 1989 – $3,242,440) (notes 4 & 5)		
Day, call and short loans to investment dealers and brokers, secured	**464,286**	302,079
Banks	**1,203,908**	1,951,471
Mortgages	**15,504,616**	13,156,384
Other	**37,932,968**	38,892,791
	55,105,778	54,302,725
Other		
Customers' liability under acceptances	**3,507,665**	2,778,238
Land, buildings and equipment (note 6)	**1,329,807**	1,296,720
Other assets (note 7)	**2,686,562**	2,201,316
	7,524,034	6,276,274
Total Assets	**$87,369,944**	$78,920,821

*Refer to notes 1 & 2

	1990	1989
Liabilities, Share Capital and Retained Earnings		
Deposits (note 9)		
Payable on demand	**$ 6,967,449**	$ 7,285,832
Payable after notice	**25,998,221**	24,652,239
Payable on a fixed date	**40,355,797**	33,985,162
	73,321,467	65,923,233
Other		
Acceptances	**3,507,665**	2,778,238
Liabilities of subsidiaries, other than deposits (note 10)	**688,914**	1,012,673
Other liabilities (note 11)	**4,412,259**	4,087,739
Minority interests	**41,205**	42,556
	8,650,043	7,921,206
Subordinated Debt (note 12)		
Bank debentures	**1,297,529**	1,153,343
Other subordinated debt	**175,005**	176,025
	1,472,534	1,329,368
Share Capital and Retained Earnings		
Shareholders' equity		
Share capital (note 13)		
Preferred shares	**475,000**	650,000
Common shares	**2,275,789**	2,162,288
Retained earnings	**1,175,111**	934,726
	3,925,900	3,747,014
Total Liabilities, Share Capital and Retained Earnings	**$87,369,944**	$78,920,821

M.W. Barrett

Matthew W. Barrett
Chairman and
Chief Executive Officer

F.A. Comper

F. Anthony Comper
President and
Chief Operating Officer

Bank of Montreal
Consolidated Statement of Income

For the Year Ended October 31 ($ in thousands except per share amounts)	1990	1989*
Interest, Dividend and Fee Income		
Loans	$6,965,041	$7,452,275
Lease financing	97,410	110,540
Securities	1,439,976	1,198,226
Deposits with banks	988,077	792,239
	9,490,504	9,553,280
Interest Expense		
Deposits	6,697,538	6,769,829
Subordinated debt	130,772	134,431
Liabilities other than deposits	171,240	164,661
	6,999,550	7,068,921
Net Interest Income	2,490,954	2,484,359
Provision for credit losses	168,744	1,181,511
Net Interest Income After Provision for Credit Losses	2,322,210	1,302,848
Other operating income	1,201,938	1,119,206
Foreign currency translation loss arising from foreign operation in highly inflationary economy (note 2)	(111,065)	(89,727)
Net Interest and Other Income	3,413,083	2,332,327
Non-Interest Expense		
Salaries	1,234,587	1,163,311
Pension and other staff benefits	156,969	127,325
Premises and equipment	489,441	462,319
Other expenses	572,538	577,494
	2,453,535	2,330,449
Income Before Provision for Income Taxes	959,548	1,878
Provision for income taxes (note 14)	434,525	36,085
Income (Loss) Before Minority Interests	525,023	(34,207)
Minority interests	2,658	4,386
Net Income (Loss)	$ 522,365	$ (38,593)
Net income (loss) per common share (note 15)	$ 4.20	$ (0.79)

*Restated to conform with 1990 presentation (note 2)

Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended October 31 ($ in thousands)	1990	1989*
Class A Preferred Shares (note 13)		
Balance at beginning of year	**$ 650,000**	$ 450,000
Redemption of 7,000,000 Preferred Shares – Series 2	**(175,000)**	–
Proceeds of the sale of 8,000,000 Preferred Shares – Series 4	**–**	200,000
Balance at end of year	**475,000**	650,000
Common Shares (note 13)		
Balance at beginning of year	**2,162,288**	2,047,779
Shareholder Dividend Reinvestment and Share Purchase Plan	**113,501**	114,509
Balance at end of year	**2,275,789**	2,162,288
Retained Earnings		
Balance at beginning of year	**934,726**	1,286,228
Net income (loss)	**522,365**	(38,593)
Dividends – Common shares	**(240,406)**	(231,945)
– Preferred shares	**(48,125)**	(47,222)
Unrealized gain (loss) on translation of net investment in foreign operations, net of hedging activities and applicable income tax	**10,069**	(29,949)
Premium on redemption of Preferred Shares – Series 2	**(3,500)**	–
Share issue expense, net of applicable income tax	**(18)**	(3,793)
Balance at end of year	**1,175,111**	934,726
Total Shareholders' Equity	**$3,925,900**	$3,747,014

*Restated to conform with 1990 presentation (note 2)

For the Year Ended October 31 ($ in thousands)	1990	1989
Funds Provided From:		
Operations		
Net income (loss)	$ 522,365	$ (38,593)
Dividends	(288,531)	(279,167)
Other changes to retained earnings	6,551	(33,742)
	240,385	(351,502)
Capital		
Subordinated debt	143,166	22,439
Preferred shares	(175,000)	200,000
Common shares	113,501	114,509
	81,667	336,948
Banking		
Deposits	7,398,234	(446,954)
Other liabilities	(590)	1,279,428
	7,397,644	832,474
Net Funds Provided	7,719,696	817,920
Funds Invested In:		
Securities	2,477,158	(184,938)
Loans	803,053	2,316,993
Land, buildings and equipment	33,087	(2,779)
Other assets	485,246	278,208
Net Funds Invested	3,798,544	2,407,484
Increase (Decrease) in Cash Resources	3,921,152	(1,589,564)
Cash Resources, Beginning of Year	8,580,929	10,170,493
Cash Resources, End of Year	$12,502,081	$ 8,580,929

1 Significant Accounting Policies and Practices

The accounting policies and financial statement formats of Canadian banks are prescribed by the Bank Act and the regulations of the Superintendent of Financial Institutions. The accounting policies followed by Bank of Montreal conform in all material respects with accounting principles generally accepted in Canada, except for the translation of foreign currencies.

Certain comparative data has been restated to conform with the 1990 presentation.

The significant accounting policies followed by the Bank are described below.

Basis of Consolidation

These consolidated financial statements include the Bank and all its subsidiary corporations. The purchase method is used to account for all acquisitions. The difference between the cost of the investment and the fair value of the net assets acquired is deferred and amortized over a period not exceeding 25 years. The unamortized balance is recorded in other assets as goodwill and other valuation intangibles.

Investments in associated corporations, being those in which the Bank owns 20% to 50% of voting shares, are accounted for by the equity method, whereby the income of such corporations is recognized based on the Bank's proportionate share of the earnings.

Translation of Foreign Currencies

(a) Other than for Operations in Highly Inflationary Economies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year-end exchange rates. Revenues and expenses are translated at the average exchange rates prevailing during the year.

Realized and unrealized gains and losses on foreign currency assets and liabilities, other than those relating to net investments in foreign operations, are recorded in other operating income.

Unrealized foreign currency translation gains and losses on investments in foreign branches, subsidiaries and associated corporations are recorded in retained earnings, net of the after tax effect of any offsetting gains and losses on liabilities and foreign exchange contracts used to hedge the investments. Such gains and losses are recorded in income only when realized.

(b) Operations in Highly Inflationary Economies

For foreign operations in highly inflationary economies monetary assets and liabilities are translated into Canadian dollars at year-end exchange rates. Non-monetary assets and liabilities are translated into Canadian dollars at rates in effect at the respective transaction dates. Revenues and expenses are translated at the average exchange rates prevailing during the year.

Realized and unrealized gains and losses on translation are separately recorded in the Consolidated Statement of Income. Refer to Note 2 "Change in Accounting Policy".

Securities

Investment account securities are securities purchased where the Bank's original intention is to hold the securities to maturity or until market conditions render alternative investments more attractive. Equity securities are carried at cost and debt securities at amortized cost. Gains and losses on disposal of these securities are recorded in income from securities when realized. Any permanent impairment in the value of investment account securities is recorded as a charge to income from securities in the year in which it occurs.

Trading account securities are those securities purchased for resale over a short period of time. Such securities are carried at market value. Adjustments to market value and gains and losses on sale of trading securities are recorded in income from securities in the period in which they occur. Obligations related to securities sold but not yet purchased are recorded in other liabilities.

Debt of designated countries are securities received as the result of debt restructurings with countries identified by the Superintendent of Financial Institutions as having difficulty in servicing their external debt to commercial banks. Such securities are accorded the accounting treatment applicable to loans.

Loan substitute securities are customer financings structured as after-tax investments to provide the borrower with an interest rate advantage over what would otherwise be applicable on a conventional loan. Such securities are accorded the accounting treatment applicable to loans.

Loans

Loans are stated net of any unearned income, unamortized discounts and allowance for credit losses.

Fees received in connection with loan origination activities, including loan restructurings and renegotiations, are deferred and amortized to interest income over the expected term of the loan. Loan commitment fees are deferred and amortized to other income over the term of the commitment. Loan syndication fees are recorded in other income on completion of the syndication arrangement. Deferred loan fees are recorded in other liabilities.

Interest income is recorded on an accrual basis except on loans classified as non-accrual.

The accounting treatment for non-accrual loans is as follows:

Personal Plan and Credit Card Loans	Sovereign Risk Loans	All Other Loans
Classification as non-accrual		
Loans are classified as non-accrual when payments are contractually past due six months.	Loans are classified as non-accrual when: 1. in the opinion of management there is significant doubt as to the ultimate collectibility of principal, or 2. payment of interest or principal is contractually past due 90 days and there is reasonable doubt as to ultimate collectibility, or 3. payment of interest or principal is contractually past due 180 days, or 4. in the opinion of management it is considered prudent or desirable to cease accruing interest, irrespective of the status of interest or principal payments.	
Interest		
When the loan is classified as non-accrual, all accrued and unpaid interest is reversed and charged against interest income in the period in which the loan is classified as non-accrual. Interest is not capitalized if a loan is non-accrual nor is it capitalized to prevent placing a loan on a non-accrual basis.		
Application of subsequent payments		
Subsequent payments are applied first to interest, then to principal, unless directed otherwise by the borrower.	Subsequent payments are applied first to interest, then to principal, unless directed otherwise by the borrower.	Subsequent payments are recorded in interest income only if management has determined that a specific provision is not required, otherwise they are recorded as a reduction of principal.

Allowance for Credit Losses

The Bank maintains an allowance for credit losses account which may consist of :

- General country risk provision on sovereign, transborder or country risk claims, where the ultimate risk is located in certain countries designated by the Superintendent of Financial Institutions.

  The general country risk provision is deducted from loans.

- Other provisions

  – Specific provisions sufficient to reduce the book value of identifiable loans and other on and off balance sheet credit amounts to their estimated realizable value.

  – Provisions for doubtful credits, other than the general country risk provision, which are prudential in nature and cannot be determined otherwise on an item-by-item basis, but are deemed necessary by management to absorb losses inherent in the portfolio of credit extended to particular industries or geographic regions.

Other provisions are deducted from the related asset category, except for provisions relating to acceptances and off-balance sheet items which are recorded in other liabilities.

The provision for credit losses recorded in the Consolidated Statement of Income comprises net additions to the allowance for credit losses account for the year, less recoveries against loans and other credit assets previously written off.

The accounting treatment for establishing provisions for credit losses is as follows:

Personal Plan and Credit Card Loans	Sovereign Risk Loans	All Other Loans
Establishing provision for credit losses on loans		
Credit card loans are reviewed at least quarterly and a full specific provision is established when they are six months in arrears. Personal plan loans are reviewed quarterly and a full specific provision is established when they are one year in arrears.	Loans are reviewed at least quarterly. If there is significant doubt as to the ultimate collectibility of principal on a particular private sector loan, a specific provision is established to reduce the book value of the loan to its estimated realizable value. The Bank also establishes a general country risk provision against designated country risk loans. The purpose of this general provision is to permit management to establish an appropriate allowance against possible loan losses when, in its judgement, circumstances are such as to give rise to concern, even though events may not have occurred which would justify the classification of individual loans as non-accrual. The general country risk provision is prudential in nature and is established on an unallocated basis.	Loans are reviewed at least quarterly. If there is significant doubt as to the ultimate collectibility of principal on a particular loan, a specific provision is established to reduce the book value of the loan to its estimated realizable value. In addition, the Bank may establish provisions for doubtful credits against its exposure to particular industries or geographical regions. These provisions are prudential in nature and their purpose is to permit management to establish an appropriate allowance for credit losses which are deemed to be inherent in the portfolio but cannot be determined on a loan-by-loan basis.
Write-Offs		
Credit card and personal plan loans are written off at the time the full provision is made.	Loans are written off after all reasonable restructuring/collection activities have taken place and the possibility of further recovery is considered to be remote.	

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost less an allowance for depreciation and amortization. The Bank's depreciation policy is the straight line method over the estimated useful life of the asset, with the exception of major Canadian properties which are depreciated using the sinking fund method. The maximum life limits for the various classes are as follows:

Major Canadian properties	to 50 years
All other buildings	to 40 years
Leasehold improvements	to 15 years
Equipment	to 10 years

Income Taxes

The Bank's total income taxes includes the provision for income taxes in the Consolidated Statement of Income and income taxes in respect of items recorded directly in retained earnings. The Bank follows the tax allocation method of accounting whereby income taxes are based on transactions recorded in the financial statements regardless of when they are

recognized for tax purposes. When there are timing differences in the recognition of transactions for financial statement and income tax purposes, deferred income taxes are recorded. Accumulated deferred income taxes are included in other assets or other liabilities as appropriate.

Interest Rate and Foreign Exchange Contracts

The Bank enters into interest rate and foreign exchange contracts such as futures, options and swaps for trading purposes or to hedge the Bank's interest rate or foreign currency exposures. Such contracts are marked to market and gains and losses are immediately recorded in income unless the contract is entered into for hedging purposes. When used for hedging purposes, gains and losses are recognized in income on the same basis as the hedged item.

Pension and Other Retirement Benefits

The Pension Fund Society of the Bank of Montreal is the Bank's principal pension plan in Canada. The plan provides pensions to retired employees based on years of service and average earnings at retirement. A number of smaller plans provide similar benefits to other employees in Canada and in other parts of the world. These plans are generally non-contributory, with the Bank responsible for contributions to adequately fund the plans. A valuation is performed each year to determine the actuarial present value of the accrued pension benefits. Pension plan assets are valued at market values. Pension expense is recorded in the Consolidated Statement of Income in pension and other staff benefits and includes (1) the cost of pension benefits earned by employees for current year services, (2) the net of interest revenue on plan assets and funding expense on accrued pension liabilities and (3) the amortization on a straight line basis over the expected average remaining service life of employees of (i) experience gains and losses, (ii) amounts arising as a result of changes in assumptions and (iii) amounts arising from plan amendments.

The Bank also provides certain health care and life insurance benefits for employees on retirement. The cost of these benefits is recorded in pension and other staff benefits as incurred.

2 Change in Accounting Policy

Effective November 1, 1989, with the approval of the Superintendent of Financial Institutions, the Bank changed its prescribed policy of accounting for foreign operations in highly inflationary economies. Previously unrealized foreign currency translation gains and losses on investments in foreign operations in highly inflationary economies were recorded in retained earnings. As a result of the change such translation gains and losses are now recorded in the Consolidated Statement of Income. This change in accounting has been applied on a retroactive basis.

The effect of this change is that net income is lower than it would otherwise have been by $111.1 million for the year ended October 31, 1990 ($89.7 million for the prior year). Net income per share (basic and fully diluted) is lower by $0.98 for the year ended October 31, 1990 ($0.83 for the prior year). The change in accounting has no impact on share capital and retained earnings.

3 Securities

($ in millions)	1990							1989	
	Term to Maturity								
	Within 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total	Est. Market Value	Total	Est. Market Value
Investment Account									
Issued or guaranteed by:									
Canada	$2,837	$ 109	$ 24	$121	$ 118	$ 3,209	$ 3,209	$2,920	$2,922
Provinces	501	6	20	12	3	542	540	129	129
Municipal or school corporations	–	–	–	4	1	5	4	5	5
US Federal government	428	639	231	2	–	1,300	1,311	1,280	1,283
US States, municipalities and agencies	633	280	669	377	82	2,041	2,080	2,152	2,152
All other governments	2	–	–	–	–	2	2	2	2
Corporate debt	1,088	35	38	8	14	1,183	1,179	603	619
Corporate equity (a)	–	5	–	–	73	78	86	78	88
Total investment securities (b)	5,489	1,074	982	524	291	8,360	8,411	7,169	7,200
Trading Account (c)	1,487	272	117	216	236	2,328	2,328	2,448	2,448
Debt of Designated Countries (d)	–	–	–	–	1,257	1,257	1,257	–	–
Loan Substitute Securities									
Term preferred shares	–	–	–	1	263	264	261	99	99
Floating rate small business development bonds and small business bonds	29	–	–	–	–	29	29	45	45
Total loan substitute securities (e)	29	–	–	1	263	293	290	144	144
Total Securities	$7,005	$1,346	$1,099	$741	$2,047	$12,238	$12,286	$9,761	$9,792

(a) Equity securities which have no stated term are classified as "Over 10 Years" term to maturity.

(b) Investment securities of Harris Bankcorp, Inc. having a book value of $1,322 million (1989 – $1,157 million) were pledged, where permitted or required by law, to secure liabilities and public and trust deposits.

(c) Trading account securities are primarily short term Canadian and US government treasury and similar debt instruments.

(d) Includes $1,240 million (1989 – nil) of Mexican government bonds, collateralized by US Treasury Securities, received as the result of a debt restructuring. No allocation of the general country risk provision recorded in loans is made to debt of designated countries. For purposes of disclosing the estimated market value, debt of designated countries is included at book value.

(e) Total loan substitute securities are net of $5 million (1989 – $7 million) allowance for credit losses.

4 Non-Performing Loans

($ in millions)	1990				1989			
Balances	**Domestic (a)**	**International Designated Countries (b)**	**International Other Countries**	**Total**	Domestic	International Designated Countries	International Other Countries	Total
Consumer non-accrual	$ 23	$ –	$ –	$ 23	$ 15	$ –	$ –	$ 15
Other non-accrual	635	1,817	787	3,239	764	1,996	491	3,251
Total non-accrual loans	658	1,817	787	3,262	779	1,996	491	3,266
Renegotiated reduced rate loans (c)	–	–	–	–	–	–	–	–
Gross non-performing loans	658	1,817	787	3,262	779	1,996	491	3,266
Allowance for credit losses	(318)	(1,782)	(239)	(2,339)	(313)	(1,996)	(172)	(2,481)
Total net non-performing loans	$ 340	$ 35	$548	$ 923	$ 466	$ –	$ 319	$ 785
Interest Income on Non-Performing Loans (d)								
Interest income								
Non-accrual loans	$ 18	$ 64	$ 22	$ 104	$ 37	$ 95	$ 49	$ 181
Renegotiated reduced rate loans	–	–	–	–	–	–	–	–
Total interest income on non-performing loans	$ 18	$ 64	$ 22	$ 104	$ 37	$ 95	$ 49	$ 181
Average Net Non-Performing Loans (e)	$ 378	$ 13	$402	$ 793	$ 558	$ 52	$ 273	$ 883
Yield on Average Net Non-Performing Loans				13.1%				20.5 %

(a) The domestic segment represents loans and interest booked in Canada regardless of currency or the residency of the customer. The international segment consists of loans and interest booked outside of Canada, again regardless of currency or residency of the customer. However, loans where the ultimate risk is located in certain countries designated by the Superintendent of Financial Institutions are deemed to be international even if booked in Canada.

(b) Designated countries are a basket of 43 (1989–42) countries identified by the Superintendent of Financial Institutions as having difficulties in servicing all or part of their external debt to commercial banks.

(c) Renegotiated reduced rate loans represent non-performing loans where, due to the weakened financial condition of the borrower, the rate of interest has been renegotiated to a rate less than the prevailing market. The financial information provided represents large exposures only, that is, where the balance outstanding is in excess of 1/10 of 1% of the Bank's capital. On this basis there are no reportable balances outstanding for the year end 1990 or 1989.

(d) Interest income on non-performing loans is reported net of previously accrued interest which has been reversed in the current reporting year. Gross interest income received was $133 million (1989–$212 million).

(e) Average balances are based on daily balances with the exception of designated countries which are based on a quarterly average.

5 Allowance for Credit Losses

($ in thousands)	1990			1989
The allowance for credit losses is recorded in the following balance sheet categories:	**General country risk provision**	**Other provisions**	**Total**	Total
Securities	**$ –**	**$ 4,782**	**$ 4,782**	$ 6,597
Loans	**1,780,905**	**553,224**	**2,334,129**	3,242,440
Other liabilities (for acceptances and off balance sheet items)	**–**	**321**	**321**	245
Balance at end of year	**$1,780,905**	**$558,327**	**$2,339,232**	$3,249,282
Changes in the allowance for credit losses are itemized as follows:	**General country risk provision**	**Other provisions**	**Total**	Total
Balance at beginning of year	**$2,763,266**	**$486,016**	**$3,249,282**	$2,651,792
Provision for credit losses	**(21,144)**	**189,888**	**168,744**	1,181,511
Recoveries	**–**	**31,013**	**31,013**	31,493
Write-offs	**(893,221)**	**(212,692)**	**(1,105,913)**	(523,912)
Other, including foreign exchange rate changes	**(67,996)**	**64,102**	**(3,894)**	(91,602)
Balance at end of year	**$1,780,905**	**$558,327**	**$2,339,232**	$3,249,282

6 Land, Buildings and Equipment

($ in thousands)	1990			1989
	Cost	**Accumulated depreciation and amortization**	**Net book value**	Net book value
Land	**$ 199,584**	**$ –**	**$ 199,584**	$ 193,577
Buildings	**856,754**	**229,732**	**627,022**	615,527
Equipment	**758,313**	**369,761**	**388,552**	375,805
Leasehold improvements	**209,481**	**94,832**	**114,649**	111,811
Total	**$2,024,132**	**$694,325**	**$1,329,807**	$1,296,720
Depreciation of buildings and equipment and amortization of leasehold improvements for the year			**$ 145,317**	$ 139,652

7 Other Assets

($ in thousands)	1990	1989
Accrued interest receivable	**$ 609,162**	$ 554,803
Due from clients, dealers and other financial institutions	**520,374**	219,436
Deferred income taxes recoverable	**379,544**	521,042
Goodwill and other valuation intangibles	**311,022**	263,217
Other	**866,460**	642,818
Total	**$2,686,562**	$2,201,316
The components of goodwill and other valuation intangibles (and the remaining amortization period) for each major subsidiary are as follows:		
Nesbitt, Thomson Inc. and subsidiaries (11 years)	**$ 137,000**	$ 150,329
Harris Bankcorp, Inc. and subsidiaries (18 years)	**27,228**	26,683
Banco de Montreal S.A. (14 years)	**17,692**	18,871
Other valuation intangibles in respect of Harris Bankcorp, Inc. (varying years)	**129,102**	67,334
Total	**$ 311,022**	$ 263,217
Amortization of goodwill and other valuation intangibles for the year	**$ 25,959**	$ 28,548

8 Geographic Distribution of Assets by Location of Ultimate Risk

as at September 30 ($ in millions) (a)	1990	1989
Countries Other than Designated Countries (b) & (c)		
Canada and United States		
Canada	**$53,134**	$48,752
United States (d)	**23,572**	22,589
Total	**76,706**	71,341
Europe		
France	**1,180**	377
Germany	**441**	281
Italy	**351**	196
Netherlands	**516**	299
United Kingdom	**1,225**	1,206
Other	**1,092**	610
Total	**4,805**	2,969
Latin America and Caribbean	**102**	243
Asia Pacific		
Australia	**358**	181
Japan	**1,948**	1,801
Other	**536**	409
Total	**2,842**	2,391
Africa and Middle East	**29**	19
Total assets in countries other than designated countries	**84,484**	76,963
Designated Countries (a) & (c)		
Latin America and Caribbean		
Argentina	**344**	362
Brazil	**1,384**	1,757
Mexico (d)	**1,191**	2,107
Venezuela	**453**	485
Other	**148**	194
Europe	**122**	112
Africa and Middle East	**–**	92
Total assets in designated countries	**3,642**	5,109
Country risk provision	**(1,782)**	(2,764)
Assets in designated countries net of country risk provision	**1,860**	2,345
Total assets (a)	**$86,344**	$79,308
Assets in designated countries net of country risk provision	**1,860**	2,345
Less: Local assets funded by local liabilities	**(389)**	(548)
Net exposure to designated countries	**$ 1,471**	$ 1,797

(a) The amounts for assets in designated countries and the related deduction for country risk provision are as at October 31.

(b) All of the countries noted separately above represent an ultimate risk of 1/2 of 1% or more of the Bank's aggregate outstanding securities, deposits with other banks, customers' liability under acceptances and loans excluding mortgages.

(c) Designated countries are a basket of 43 (1989–42) countries identified by the Superintendent of Financial Institutions as having difficulties in servicing all or part of their external debt to commercial banks.

(d) Included in the exposure to Mexico are $1,112 million (1989–nil) of Mexican government bonds net of the value of the related collateralizing US Treasury Securities which is included in United States risk. (See note 3).

9 Deposits

($ in thousands)	1990	1989
Deposits by Canada	**$ 469,153**	$ 107,254
Deposits by provinces	**294,064**	258,240
Deposits by banks	**13,805,646**	10,473,809
Deposits by individuals	**37,841,162**	34,868,076
Deposits by corporate and other institutions	**20,911,442**	20,215,854
Total	**$73,321,467**	$65,923,233

10 Liabilities of Subsidiaries, Other Than Deposits

($ in thousands)	Interest Rate %	Date Maturing	1990	1989
Bank of Montreal Realty Inc.				
Long term notes	9.50	May, 1996	**$ 100,000**	$ 100,000
Long term notes	10.75	November, 1992	**75,000**	75,000
Mortgages	7.75–10.75	to 1998	**7,963**	8,554
Bank of Montreal Leasing Corporation				
Series I notes, secured	9.05–12.00	to 1993	**13,125**	28,625
Short term notes, unsecured	11.05–13.70	to 1991	**94,595**	119,322
Harris Bankcorp, Inc.				
US $ 100,000 subordinated notes	9.375	June, 2001	**116,670**	117,350
Other US $ long term notes	varying rates	to 1995	**421**	32,565
Nesbitt, Thomson Inc.				
Short term indebtedness	varying rates	to 1991	**281,140**	531,257
Total			**$ 688,914**	$ 1,012,673

The aggregate sinking fund requirements and maturities as at October 31, 1990 are as follows:

	($ in thousands)
1991	$386,305
1992	4,575
1993	80,000
1994	–
1995	–
Thereafter	218,034
	$688,914

11 Other Liabilities

($ in thousands)	1990	1989
Obligations related to securities sold but not yet purchased	**$2,262,708**	$1,893,970
Other short term liabilities of subsidiaries	**261,123**	456,672
Accrued interest payable	**951,187**	922,159
Accounts payable, accrued expenses and other	**898,849**	773,871
Deferred fees	**38,392**	41,067
Total	**$4,412,259**	$4,087,739
Amortization of deferred fees included in income from loans for the year	**$ 22,681**	$ 23,420

12 Subordinated Debt

($ in thousands)	Interest Rate %	Date Maturing	Redeemable at the option of the Bank beginning	Denominated in U.S. $	1990	1989
Series 8 Debentures	15.25	July, 1994	–	30,000	**$ 35,001**	$ 35,205
Series 9 Debentures	8.125 (a)	April, 1996	April, 1989	250,000	**291,675**	293,375
Series 10 Debentures	8.2375 (b)	July, 1998	July, 1991	250,000	**291,675**	293,375
Series 11 Debentures	10.60	December, 1998	–	–	**150,000**	150,000
Series 13 Debentures	13.632 (c)	August, 2089	August, 2000	–	**150,000**	–
Subordinated Notes	10.30	March, 1999	March, 1994	125,000	**145,838**	146,688
Subordinated Notes	9.80	November, 2000	October, 1995	200,000	**233,340**	234,700
					1,297,529	1,153,343
Subordinated Notes	10.00	September, 1998	–	150,000	**175,005**	176,025
					$1,472,534	$1,329,368

(a) The Series 9 Debentures bear interest at a rate of 1/8 of 1% above the London Eurodollar deposit rate, as defined, with a minimum rate of 5%. The stated rate is as at October 31, 1990.

(b) The Series 10 Debentures bear interest at a rate of 0.05% above the London Eurodollar deposit rate, as defined, with a minimum rate of 6.05%. The stated rate is as at October 31, 1990.

(c) The Series 13 Debentures bear interest at a rate equal to the Canadian "90 day Bankers' Acceptance Rate" plus 0.40%, as defined. The stated rate is as at October 31, 1990. They are redeemable from August 8, 2000, at the Bank's option, for either (a) cash at par plus unpaid accrued interest or (b) common shares of the Bank. The common share conversion price is 95% of the trading price (as defined) of the Bank's common shares.

All subordinated debt represents direct unsecured obligations of the Bank and is subordinated in right of payment to the claims of depositors and certain other creditors.

In accordance with the formula prescribed in the Bank Act, the Bank has the capacity, as of November 1, 1990, to issue an additional $674.2 million of debentures.

The aggregate sinking fund obligations and maturities of the Bank's subordinated debt, as at October 31, 1990, are as follows:

	($ in thousands)
1991	$ 8,750
1992	8,750
1993	8,750
1994	8,751
1995	–
Thereafter	1,437,533
	$1,472,534

13 Share Capital

Authorized

50,000,000 Class A Preferred Shares without par value, issuable in series. The aggregate consideration for all Class A Preferred Shares shall not exceed $1 billion.

12,500,000 Class B Preferred Shares without par value, issuable in series. The aggregate consideration for all Class B Preferred Shares shall not exceed $250 million. These shares may be issued in foreign currencies.

Unlimited number of common shares without par value. The aggregate consideration for all common shares shall not exceed $ 5.5 billion.

Outstanding

	1990		1989	
	Number of Shares	**Amount ($ in thousands)**	Number of Shares	Amount ($ in thousands)
$2.50 Class A Preferred Shares Series 2 (a)	**–**	**$ –**	7,000,000	$ 175,000
Class A Preferred Shares Series 3 (b)	**11,000,000**	**275,000**	11,000,000	275,000
Non-Cumulative Class A Preferred Shares Series 4 (c)	**8,000,000**	**200,000**	8,000,000	200,000
Common Shares (d) & (e)	**114,994,530**	**2,275,789**	110,760,085	2,162,288
Total Outstanding Share Capital		**$2,750,789**		$2,812,288

(a) On December 18, 1989, the Bank redeemed all of the then outstanding Class A Preferred Shares Series 2 at the redemption price of $25.50 per share together with accrued and unpaid dividends.

(b) Class A Preferred Shares Series 3 have a cumulative minimum quarterly dividend equal to the greater of $0.53125 per share or one quarter of 75% of the Bank's average prime rate (as defined) times $25.00. They are redeemable from February 1, 1990 to January 31, 1991 at $25.80 per share, and thereafter at declining prices.

(c) Class A Preferred Shares Series 4 have a minimum quarterly non-cumulative dividend equal to the greater of $0.5625 per share or 56.60% of the cash dividend paid on common shares of the Bank. They are redeemable from September 20, 1999, at the Bank's option, for either (a) cash at $25.00 per share or (b) common shares of the Bank. By terms of the issue, the exchange ratio is set at 95% of the trading price (as defined) of the Bank's common shares.

(d) During the year 4,234,445 (1989 – 3,998,274) common shares were issued under the Shareholder Dividend Reinvestment and Share Purchase Plan for a total value of $113.5 million (1989 – $114.5 million).

(e) As at October 31, 1990, 3,430,259 common shares were reserved for possible issuance in respect of the Shareholder Dividend Reinvestment and Share Purchase Plan.

14 Income Taxes

($ in thousands)	1990	1989
Total Income Taxes		
The Bank's total income taxes include the provision for income taxes in the Consolidated Statement of Income and the income tax applicable to items charged directly to retained earnings, as follows:		
Consolidated Statement of Income		
Provision for income taxes	**$434,525**	$ 36,085
Consolidated Statement of Changes in Shareholders' Equity		
Unrealized gains/losses on translation of net investment in foreign operations, net of hedging activities	**(10,593)**	28,535
Share issue expense	**16**	(2,786)
Total income taxes	**$423,948**	$ 61,834
Current and Deferred Income Taxes		
Total income taxes consists of current and deferred portions. Current income taxes represent income taxes payable for the year to taxing authorities in jurisdictions where the Bank conducts its business. Deferred taxes represent timing differences between income taxes payable (ie current income taxes) and total income taxes accounted for in the financial statements.		
The current and deferred portions of total income taxes are as follows:		
Current income taxes	**$235,587**	$281,007
Deferred income taxes	**188,361**	(219,173)
Total income taxes	**$423,948**	$ 61,834
Effective Tax Rate		
The provision for income taxes recorded in the Consolidated Statement of Income is lower than the amount that would be computed by applying the combined Canadian Federal and Provincial statutory income tax rate. The factors contributing to this and their impact on the effective tax rate are described below.		
Combined Canadian Federal and Provincial statutory income tax rate	**41.7%**	41.6%
Increase (decrease) in rate resulting from:		
Lower average income tax rates applicable to income earned outside of Canada	**–**	(4.4)
Tax-exempt income from Canadian securities, primarily income debentures, preferred shares and small business bonds	**(0.7)**	(0.7)
Other	**4.3**	2.9
Effective income tax rate (a)	**45.3%**	39.4%

(a) The actual effective income tax rate has been amended for the effect of the foreign currency translation loss arising from foreign operations in a highly inflationary economy.

15 Net Income Per Common Share

Net income per common share is calculated using the daily average of common shares outstanding. For the year ended October 31, 1990 this average is 113,011,126 (1989–109,011,371).

The Bank's Class A Preferred Shares Series 4 are redeemable from September 20, 1999 and the Series 13 Debentures from August 8, 2000, at the Bank's option, for either cash or common shares.

As these contingencies are at the Bank's option no dilution is considered applicable in this respect.

On this basis there were no outstanding share contingencies which would cause dilution in earnings per share for 1990 and 1989.

16 Off Balance Sheet Commitments

In the normal course of business, there are various outstanding commitments consisting of the following:

–letters of credit and guarantees

–other credit related commitments

–interest rate and foreign exchange related contracts

These commitments are not recorded in the Consolidated Statement of Assets and Liabilities.

The amounts for letters of credit and guarantees are as follows:

($ in thousands)	**1990**	1989
Letters of Credit	**$ 569,673**	$ 812,169
Guarantees	**3,478,395**	3,161,839
Total	**$4,048,068**	$3,974,008

17 Legal Proceedings

Management considers that the aggregate liability which may result from various legal proceedings outstanding against the Bank and its subsidiaries will not be material.

18 Lease Commitments

($ in thousands)

Contractual rental commitments of more than $25 thousand for buildings and equipment for the next five years and thereafter are as follows:

1991	$83,251	1994	$ 64,284
1992	80,930	1995	50,137
1993	75,393	Thereafter	391,886

19 Pension Funds

($ in thousands)	**1990** (a)	1989
The following table presents the financial position of The Pension Fund Society of the Bank of Montreal as at October 31 (b)		
Pension plan assets at market value	**$850,500**	$900,200
Actuarial present value of accrued pension benefits	**816,700**	784,400
Surplus	**$ 33,800**	$115,800
Total pension expense for the year (c)	**$ 39,197**	$ 27,092

(a) The amount for 1990 is estimated.

(b) The Bank has a number of pension funds, of which The Pension Fund Society of the Bank of Montreal is the principal plan in Canada and the Employees' Retirement Plan of Bank of Montreal/Harris is the pension plan for most of the employees of Harris Bankcorp, Inc. and U.S.-based Bank of Montreal offices.

(c) Total pension expense for the year includes the amount in the Consolidated Statement of Income for all of the Bank's pension plans and Bank contributions to the Canada and Quebec Pension Plans.

20 Domestic/International Segmented Financial Data

Domestic operations represent the Bank's business booked in Canada as transacted in a variety of currencies regardless of the residency of the customer. International operations represent business booked outside of Canada, again regardless of currency or residency of the customer. However, transactions on international money markets, and loans where the ultimate risk is located in certain countries designated by the Superintendent of Financial Institutions are deemed to be international even if booked in Canada.

In order to segment domestic and international results, it is necessary to make certain allocations. The capital funds of the Bank are allocated based upon relative average assets. Any remaining excess or shortfall of assets in comparison with liabilities and capital funds is considered as supplied to or funded by the other segment at the marginal cost of funds. Corporate expenses are allocated based upon the relative amounts of non-interest expenses of each segment.

	Domestic		International		Total	
($ in millions)	**1990**	1989	**1990**	1989	**1990**	1989
Net interest income	**$ 1,715**	$ 1,576	**$ 776**	$ 908	**$ 2,491**	$ 2,484
Provision for credit losses	**40**	96	**129**	1,085	**169**	1,181
	1,675	1,480	**647**	(177)	**2,322**	1,303
Other income	**764**	743	**438**	376	**1,202**	1,119
Foreign currency translation loss arising from foreign operation in highly inflationary economy	**–**	–	**(111)**	(90)	**(111)**	(90)
	2,439	2,223	**974**	109	**3,413**	2,332
Non-interest expense	**1,725**	1,627	**728**	703	**2,453**	2,330
	714	596	**246**	(594)	**960**	2
Income taxes	**290**	237	**145**	(201)	**435**	36
	424	359	**101**	(393)	**525**	(34)
Minority interests	**1**	4	**2**	1	**3**	5
Net income (loss)	**$ 423**	$ 355	**$ 99**	$ (394)	**$ 522**	$ (39)
Average total assets	**$49,992**	$47,840	**$32,460**	$31,038	**$82,452**	$78,878
Return on average total assets	**0.85%**	0.74%	**0.31%**	(1.27)%	**0.63%**	(0.05)%

The only foreign country from which more than 10% of the Bank's consolidated interest income was derived, was the United States, where interest was Cdn. $1,973 million in 1990 (1989–Cdn. $1,955 million).

The consolidated statements of Bank of Montreal have been prepared by, and are the responsibility of, the Bank's management. The presentation and information provided therein have been prepared in accordance with the provisions of the Bank Act and related regulations and rules issued by the Superintendent of Financial Institutions, which correspond to generally accepted accounting principles except for the translation of foreign currencies. The financial statements necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

In meeting its responsibility for the reliability of financial data, management relies on comprehensive internal accounting, operating and system controls. The Bank's overall controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability; written communication of policies and procedures of corporate conduct throughout the Bank, and careful selection and training of personnel; the regular updating and application of written accounting and administrative policies and procedures necessary to ensure adequate internal control over transactions, assets and records; as well as a continued program of extensive internal audit covering all aspects of the Bank's operations. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, that assets are safeguarded against unauthorised use or disposition and that the Bank is in compliance with all regulatory requirements.

The Board of Directors oversees management's responsibilities for financial statements through the Audit Committee, which is composed solely of directors who are not officers or employees of the Bank.

The Shareholders' Auditors and the Bank's Chief Auditor have full and free access to the Audit Committee to discuss audit, financial reporting and related matters.

Matthew W. Barrett Chairman and Chief Executive Officer	F. Anthony Comper President and Chief Operating Officer	Keith O. Dorricott Executive Vice-President and Chief Financial Officer

November 27, 1990

To the Shareholders of Bank of Montreal

We have audited the consolidated statement of assets and liabilities of Bank of Montreal as at October 31, 1990 and the consolidated statements of income, changes in shareholders' equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with prescribed accounting principles.

In accordance with the rotational audit requirements of the Bank Act, the consolidated financial statements as at October 31, 1989 and for the year then ended, prior to the restatement for the change in the method of accounting for foreign operations in highly inflationary economies as described in Note 2, were audited by Coopers & Lybrand and Touche Ross & Co. who expressed an opinion without reservation on those statements in their report dated November 28, 1989. We have examined the adjustments that were applied to restate the 1989 financial statements and in our opinion, such adjustments are appropriate and have been properly applied.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants

Peat Marwick Thorne

Peat Marwick Thorne
Chartered Accountants

Toronto, November 27, 1990

Condensed Consolidated Statement of Net Assets Available for Benefits

As at October 31 ($ in thousands)	1990	1989
Investments*		
Canadian Equities	$ 68,674	$ 59,373
Canadian Equity Fund Units	145,446	173,140
Foreign Equity Fund Units	97,053	111,710
Bonds and Debentures	359,931	386,952
Mortgages	47,527	54,097
Money Market Instruments	61,430	38,909
Real Estate Properties	49,703	50,917
Oil & Gas Properties	10,518	11,052
	840,282	886,150
Accrued Interest, Dividends and Accounts Receivable	10,441	11,906
Cash	614	3,055
	851,337	901,111
Accounts Payable and Accrued Liabilities	(851)	(880)
Net Assets Available for Benefits	$850,486	$900,231

*All investments are carried at the estimated market value, except Money Market Instruments and Oil and Gas Properties which are carried at amortized cost, which approximates market value.

Auditors' Report

To the Board of The Pension Fund Society of the Bank of Montreal

We have audited the consolidated financial statements of The Pension Fund Society of the Bank of Montreal for the year ended October 31, 1990 and have reported thereon to the Members of The Pension Fund Society of the Bank of Montreal under the date of November 26, 1990. The accompanying condensed consolidated statement of net assets available for benefits, the condensed consolidated statement of changes in net assets available for benefits and the condensed statement of changes in pension obligations have been prepared from the aforementioned consolidated financial statements.

In our opinion, the accompanying condensed consolidated statement of net assets available for benefits, the condensed consolidated statement of changes in net assets available for benefits and the condensed statement of changes in pension obligations fairly summarize the information as to the financial position as at October 31, 1990 and the results of operations and the changes in financial position for the year then ended contained in the aforementioned financial statements.

Peat Marwick Thorne

Peat Marwick Thorne
Chartered Accountants

Toronto, Canada
November 26, 1990

Condensed Consolidated Statement of Changes in Net Assets Available for Benefits

For the year ended October 31 ($ in thousands)	1990	1989
Investment Income		
Dividends	$ 2,247	$ 1,995
Income from Equity Fund Units	10,985	9,375
Interest	54,676	50,879
Income from Real Estate Properties	4,535	4,041
Income from Oil and Gas Properties	1,332	1,255
Gain (Loss) on Sale of Investments	(2,402)	3,486
	71,373	71,031
Increase (Decrease) in the Unrealized Gains and Losses on Investments	(105,625)	45,020
Contributions		
Bank of Montreal	30,000	–
Members	4,672	4,930
	34,672	4,930
Payments and Expenses		
Benefit Payments	(39,968)	(36,397)
Transfer Payments	(4,207)	(4,960)
Refunds, including Interest	(2,002)	(3,620)
Administrative Expenses	(3,988)	(3,349)
	(50,165)	(48,326)
Increase (Decrease) in Net Assets	(49,745)	72,655
Net Assets Available for Benefits –Beginning of Year	900,231	827,576
Net Assets Available for Benefits –End of Year	$850,486	$900,231

The Pension Fund Society of the Bank of Montreal
Condensed Statement of Changes in Pension Obligations

For the year ended October 31 ($ in thousands)	1990	1989
Changes in Pension Obligations*		
Interest on Accrued Benefits	$ 69,800	$ 62,900
Benefits Accrued During the Year	31,100	27,800
Plan Amendments	7,600	29,000
Changes in Actuarial Assumptions	–	12,100
Experience Gains and Losses	(30,023)	7,477
	78,477	139,277
Benefit, Transfer and Refund Payments	(46,177)	(44,977)
Net Increase During the Year	32,300	94,300
Pension Obligations–Beginning of Year	784,400	690,100
Pension Obligations–End of Year	$816,700	$784,400

*Pension obligations are calculated in accordance with the Recommendations of the Canadian Institute of Chartered Accountants, using assumptions that represent management's best estimate of future events.

A copy of the Annual Report of The Pension Fund Society of the Bank of Montreal is available to members of the Society by contacting the Manager of The Pension Fund Society. The Annual Report of the Society contains the complete audited financial statements.

Table of Contents

Directors of Bank of Montreal
(as at October 31, 1990)

Matthew W. Barrett (a)
Chairman and
Chief Executive Officer

Stanley M. Davison (d)
Vice-Chairman

F. Anthony Comper (a, e)
President and
Chief Operating Officer

Charles F. Baird, LL.D. (a, b, e)
Bethesda, Maryland
Company Director

Ralph M. Barford (a, b, e)
Toronto
President
Valleydene Corporation
Limited

Peter J. G. Bentley, O.C. (f)
Vancouver
Chairman and
Chief Executive Officer
Canfor Corporation

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Quebec
Chairman of the Board
Celanese Canada Inc.

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Toronto
Corporate Director/
Consultant

Graham R. Dawson (d)
Vancouver
President
G. R. Dawson Holdings
Limited

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Edmonton
Partner
McCuaig Desrochers

John H. Devlin (d)
Toronto
Company Director

John F. Fraser
Winnipeg
President and
Chief Executive Officer
Federal Industries Ltd.

Thomas M. Galt (e)
Toronto
Company Director

J. Peter Gordon, O.C. (a, b, e)
Toronto
Director
Stelco Inc.

John H. Hale
London, England
Director
Pearson plc

Donald S. Harvie, O.C. (f)
Calgary
Chairman
Devonian Foundation

Richard M. Ivey, C.M., Q.C. (c)
London, Ontario
Chairman
Ivest Corporation

Betty Kennedy, O.C., LL.D. (a, d)
Toronto
Broadcast Journalist

Geraldine A. Kenney-Wallace
Hamilton
President and Vice-Chancellor
McMaster University

J. Blair MacAulay (f)
Toronto
Partner
Fraser & Beatty

Ronald N. Mannix (f)
Calgary
Chairman
Manalta Coal Ltd.

Robert H. McKercher, Q.C.
Saskatoon
Partner
McKercher McKercher Laing
& Whitmore

Eric H. Molson (e)
Montreal
Chairman of the Board
The Molson Companies
Limited

William D. Mulholland, LL.D. (a, f)
Toronto
Farmer
Former Chairman of
the Board
Bank of Montreal

Jerry E. A. Nickerson (d)
North Sydney, N.S.
Chairman
H.B. Nickerson &
Sons Ltd.

Jeremy H. Reitman (c)
Montreal
President
Reitmans (Canada) Limited

William W. Stinson (c)
Montreal
Chairman and Chief Executive
Officer
Canadian Pacific Limited

Mary Alice Stuart (f)
Toronto
Chairman and Chief
Executive Officer
CJRT-FM INC.

James C. Thackray
Toronto
Director
Bell Canada

Lorne C. Webster (a, b, c)
Montreal
Chairman and
Chief Executive Officer
Prenor Group Ltd.

B. Kenneth West
Chicago, Illinois
Chairman of the Board
and Chief Executive Officer
Harris Bankcorp, Inc.

(a) Member of the Executive Committee
(b) Member of the Management Compensation Sub-Committee of the Executive Committee
(c) Member of the Audit Committee
(d) Member of the Donations Committee
(e) Member of the Risk Review Committee
(f) Director of The Pension Fund Society of the Bank of Montreal

Executive Officers
(as at December 1, 1990)

M. W. Barrett
Chairman and Chief
Executive Officer

F. A. Comper
President and Chief
Operating Officer

D. Munford
Vice-Chairman
Risk Management Policy

J. S. Chisholm
Vice-Chairman
Corporate and Institutional
Financial Services

A. G. McNally
Vice-Chairman
Personal and Commercial
Financial Services

S. M. Davison
Vice-Chairman

R. G. Rogers
Senior Executive Vice-President
Personal and Commercial
Banking

M. R. P. Rayfield
Executive Vice-President
and Group Executive
Corporate and Government
Banking

G. W. Hopkins
Executive Vice-President
Corporate Electronic
Banking Services

L. F. Darlington
Executive Vice-President
Operations

L. C. Atkinson
Executive Vice-President and
Chief Economist

K. O. Dorricott, F.C.A.
Executive Vice-President and
Chief Financial Officer

D. M. Jones
Senior Vice-President,
Secretary and General Counsel

R. B. Wells, C.A.
Senior Vice-President
and Chief Accountant

S. Zargham, F.C.A. (U.K.)
Senior Vice-President
and Chief Auditor

The International Advisory Council advises the Bank and its Senior Executive on political, economic and social trends which impact its current or future operations.

Matthew W. Barrett (ex-officio) (Canada)
Chairman and Chief Executive Officer, Bank of Montreal.

Sir Peter B. Baxendell, C.B.E. (United Kingdom)
Chairman of the Hawker Siddeley Group PLC; retired Managing Director of the Royal Dutch/Shell Group; and retired Chairman of Shell U.K. Limited and of Shell Canada Limited.

F. Anthony Comper (ex-officio) (Canada)
President and Chief Operating Officer, Bank of Montreal.

Sir Neil Currie, C.B.E. (Australia)
Chairman of Howard Smith Limited, Coal & Allied Industries Limited and the Australian-Japan Foundation; former Australian Ambassador to Japan and Secretary of the Department of Industry and Commerce and the Department of Supply.

Viscount Étienne Davignon (Belgium)
Chairman of the Société Générale de Belgique; former Vice-President of the Commission of the European Communities and former President of the International Energy Agency.

Philippe Giscard d'Estaing (France)
Chairman and Chief Executive Officer of Thomson International and Executive Vice-President International of Thomson S.A.

Allan E. Gotlieb, C.C. (Canada)
Chairman, Canada Council; Publisher, Saturday Night Magazine; and former Ambassador of Canada to the United States.

***Sydney Gruson (United States)**
Senior Advisor to Rothschild Inc. and former Vice-Chairman and Director of The New York Times Company.

Reijiro Hattori (Japan)
Chairman of Seiko Corporation; President of Wako Co. Ltd. and active member of Japanese business and economic organizations.

***Walther Leisler Kiep (Federal Republic of Germany)**
Managing Partner of insurance and reinsurance brokers Gradmann & Holler; Chairman of the Atlantik-Brücke; former member of the Bundestag and currently member of the Executive Committee and Federal Treasurer of the CDU.

Hun Jo Lee (Republic of Korea)
President & Chief Executive Officer, Goldstar Co., Ltd.; Director of the Korea Institute for Industrial Economics & Technology; Vice-Chairman of Korea Industrial Research Institutes and Chairman of Audio and Video R&D Association of Korea.

Hon. Allan J. MacEachen, P.C. (Council Chairman) (Canada)
Leader of the Opposition, Senate of Canada; and former Deputy Prime Minister, Secretary of State for External Affairs and Minister of Finance.

Sylvia Ostry, O.C. (Canada)
Chairman, Centre for International Studies, University of Toronto; Western Co-Chairman, The Blue Ribbon Commission for Hungary's Economic Recovery; and former Ambassador of Canada for Multilateral Trade Negotiations.

Peter von Siemens (Federal Republic of Germany)
Senior Vice-President, Siemens AG and Head of Corporate Services in Munich; Vice-Chairman for the German delegation to the CIC (Counseil International de la Chasse et de la Conservation du Gibier).

***Hon. Jesús Silva-Herzog (Mexico)**
Director of the Centre for Latin American Monetary Studies and former Minister of Finance and Public Credit, United Mexican States.

*Retired by rotation. Members acknowledge with appreciation their contribution. Members also acknowledge with appreciation the contribution made by Mr. W.D. Mulholland whose term as an ex-officio member ended on January 15, 1990 when he retired as Chairman of the Bank.

Canada

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and Division Executive
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Correspondent & Gov't
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Republic of China
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Senior Representative
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Vice-President
Private Banking Centre
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Hong Kong

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J.D. Higgins
Vice-President and Manager
Singapore Branch
Standard Chartered
Bank Building
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Australia
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Senior Representative
Bank of Montreal
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Australia

Major Affiliates

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B.K. West
Chairman and Chief
Executive Officer
111 West Munroe Street
Chicago, Illinois 60603

Nesbitt, Thomson Inc.
B.J. Steck
Chairman and Chief
Executive Officer
150 King Street
Sun Life Tower
Toronto, Ont.
M5H 3W2

Bank of Montreal Investment Management Limited
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President
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Bank of Montreal Investor Services Limited
P.J.H. Bacon
President
First Canadian Place
Toronto, Ont.
M5X 1A1

Banco de Montreal S.A.
P.L. da Cunha
President
Travessa Do Ouvidor
No 4
Rio de Janeiro GB
20149 Brazil

Harris Government Securities Inc.
D.C. Matthews
President
111 West Monroe Street
Chicago, Illinois 60603

Listing of Stock

The common and preferred shares of the Bank are listed on the Toronto, Montreal, Winnipeg, Alberta and Vancouver stock exchanges. The common shares are also listed on the London (England) stock exchange.

Common Stock Prices— Toronto Stock Exchange

Year ended Oct. 31	1989	**1990**
High	35.25	**34.375**
Low	26.625	**24.50**
Close	34.00	**27.00**
Volume	41,435,600	**38,879,400**

Transfer Agent and Registrar

The Royal Trust Company and its principal offices at: Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver serves as transfer agent and registrar for common and preferred shares.

Common Stock Dividends

Year ended Oct. 31	
1986	$ 1.96
1987	$ 2.00
1988	$ 2.00
1989	$ 2.12
1990	**$2.12**

Shareholder Dividend Reinvestment and Share Purchase Plan

The Shareholder Dividend Reinvestment and Share Purchase Plan provides a means for holders of record of common or preferred shares resident in Canada to reinvest cash dividends in new common shares of the Bank at a discount without the payment of any commissions or service charges. Shareholders may also purchase additional common shares of the Bank by making optional cash payments of up to $40,000 per fiscal year. Full details of the plan are available from Shareholder Services.

Electronic Funds Transfer Service

Shareholders may choose to have dividends deposited directly to an account in any financial institution which provides electronic funds transfer facilities.

Restraints on Bank Shares under the 1980 Bank Act

The Bank Act limits ownership of any class of shares of the Bank by all non-residents to a maximum of 25%. In addition, no person or group of associated persons may own more than 10% of any class of shares and ownership of the Bank's shares by Canadian or foreign governments is prohibited.

Distribution of Shareholders at October 31, 1990

Canada	98.0%
United States	0.9
Other	1.1
	100.0%

For copies of the Annual Report, please write to the Public Affairs Department of the Bank, P.O. Box 6002, Place d'Armes, Montreal, Quebec H2Y 3S8, or P.O. Box 1, 1 First Canadian Place, Toronto, Ontario M5X 1A1.

For other shareholder information, please write to the Secretary's Department, P.O. Box 6002, Place d'Armes, Montreal, Quebec H2Y 3S8. (On peut obtenir sur demande un exemplaire en français.)

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